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THE BALANCED BUDGET AMENDMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

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THE BALANCED BUDGET AMENDMENT

TUESDAY, OCTOBER 8, 1985

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON MONETARY AND FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:35 a.m., in room SD-562, Dirksen Senate Office Building, Hon. Chalmers P. Wylie (vice chairman of the subcommittee) presiding.

Present: Representatives Wylie and Lungren; and Senators Symms and D'Amato.

Also present: Chris Frenze, Paul Manchester, and William Buechner, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE WYLIE, VICE CHAIRMAN

Representative WYLIE. The meeting of the Subcommittee on Monetary and Fiscal Policy of the Joint Economic Committee will please come to order. This has been a kind of a crazy morning for us, Mr. Johnson. Senator Mattingly was to have been the chairman of this hearing and start the meeting a little earlier. He is over discussing the balanced budget amendment and the debt ceiling and all that sort of thing with other Senators, so he has called me and asked me if I would proceed so that we could start with the witnesses and not delay you any longer.

But it does give me great pleasure to welcome Mr. Manuel Johnson, who is the Assistant Secretary of the Treasury for Economic Policy.

As an original cosponsor of the balanced budget tax limitation amendment, I have long been convinced that we need the discipline of a balanced budget amendment to correct the spending bias inherent in Congress. The fundamental problem is that Congress routinely approves appropriations for programs without adequate consideration of the cost and the benefits of these programs are concentrated whereas the costs are diffused among many taxpayers and the result is that aggregate spending greatly exceeds available tax revenues and has for the past several years.

So I think this constitutional amendment would force us to live within our means. Had it been in force over the last decade I don't think we would find ourselves in this dilemma where we are today with the huge budget deficit and the huge debt ceiling increase that we need to confront.

It's possible that some would like to point the finger at other places, but there is no way that Congress can evade its primary responsibility for taxing and spending decisions under article I of the Constitution and so we, in these Halls, need to come to grips with the problem.

We will put your entire statement in the record, Mr. Johnson, and you may proceed at your pleasure.

STATEMENT OF MANUEL H. JOHNSON, ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY

Mr. Johnson. Thank you, Mr. Chairman. I do have a written statement that I have submitted for the record. I will try to take a few moments to summarize the major points of my testimony and emphasize what I think is the most important.

First, I want to say from the beginning that this administration strongly supports the notion of a constitutional amendment to balance the budget and the President has consistently supported a move by the Congress to pursue a constitutional amendment.

He has also indicated a number of times that he supported in addition to that also the line item veto authority. So we strongly also endorse that additional tool.

Forty-three States now apparently have that authority for their Governors and we think it would be an effective tool also to helping discipline spending.

The main reason why the administration strongly supports a constitutional amendment to balance the budget is that we think that there is strong public support for it based on years of frustration over the inability to control the Federal spending process and the dramatic rise in deficit spending that's taken place.

Since 1960, the level of Federal spending as a percent of GNP has risen from 18.5 percent up to 25 percent this year. It has also been accompanied by a rising tax burden associated with the rise in spending and even with the tax cuts that were put in place in 1981 taxes as a percent of GNP are still very near their historical high levels.

So the fact that we've been able to cut taxes and help restore some of the productive incentives in the economy does not mean that we have exacerbated the deficit problem. Indeed, receipts are still at historic high levels as a percent of GNP.

Between 1977 and 1985, tax revenue actually increased by $380 billion and still deficits added over $1 trillion to the national debt.

These problems have surfaced despite attempts to adjust the budget process and make it more accountable to help control deficit spending growth. Since 1974, the Congressional Budget Act was an attempt to try and improve the process and make the system more accountable. However, since the 1974 Budget Act we have yet to get a complete budget through the Congress and deficit spending continues to be on the rise.

In 1978, the Congress actually passed a congressional statute requiring a balance budget by 1981. However, it's been ignored in the process so that congressional statute does not appear to be the way to go.

The recent budget resolution that has occurred this summer for fiscal budget 1986 was an encouraging step forward I think. It does seem to put deficits on a declining path as a percent of GNP over the next several years. However, a number of structural problems remain. The system problems that were in place prior to the budget resolution are still there and our concern is that without structural change the system will continue to perpetuate excessive Federal spending growth.

What are the major problems and why, in fact, do we have this sort of dynamic process that continues to create pressure on Federal spending growth and excessive Government size?

Senator THURMOND. Mr. Chairman, I have to go over to open the Senate in about 7 minutes. The distinguished witness has agreed that if I could testify now that he doesn't object.

Representative WYLIE. That sounds good to me, Senator.

Senator THURMOND. If that's agreeable with the chairman.

Representative WYLIE. As I said a little earlier, this has been kind of a crazy morning and I know you're having battles on the balanced budget amendment right now, so would you proceed at your pleasure, Senator.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Thank you very much. We're delighted to have you over here.

Representative WYLIE. Thank you, sir.

Senator THURMOND. Mr. Chairman, I appreciate the opportunity to testify before the Joint Economic Committee today on an issue which, I believe, is critical to our Nation's economic future—the balanced budget constitutional amendment.

As the members of this committee are aware, the recent fiscal history of the Federal Government is a dismal one. Congress has managed to balance the Federal budget only once in the past quarter century, once in 25 years. The level of our budget deficits has spiraled alarmingly during this period of time. Today, the Congress is faced with the most unpleasant task of raising the debt ceiling to $2 trillion. This horrendous debt threatens the economic security of our Nation.

I know of no one who does not believe that it is imperative that we gain control of budget deficits. The question is, however, how do we achieve this vital goal?

There are those who still hold out hope that the Congress will somehow reverse its now entrenched habit of spending and spending at the expense of future generations.

I believe, however, that the actions of Congress, in failing to seriously address the threatening deficits that we have had, clearly expose the folly of such hopes.

Others believe that Congress can force itself to act responsibly by enacting statutory budget restraints. Indeed, the Senate now has before it such a proposal, the so-called Balanced Budget and Emergency Deficit Control Act of 1985. I support that legislation. I am a cosponsor of that legislation, and I believe its passage would be welcomed by the citizens of our Nation.

We must remember, however, that in the past, statutory efforts to balance the budget have failed—simply because no Congress can bind the next by statute.

In my view, there must be an external constraint upon the spending tendencies of Congress, a constraint that can only be afforded by a constitutional amendment.

In July of this year, the Senate Judiciary Committee approved two versions of the balanced budget constitutional amendment. One of those versions is Senate Joint Resolution 13, the Balanced Budget-Tax Limitation Amendment, which I introduced on the first day of the 99th Congress and which has 52 Senate cosponsors. This proposal is very similar to a proposal which was approved by the Senate during the 97th Congress by a vote of 69 to 31.

In early discussions of Senate Joint Resolution 13, some members of the Judiciary Committee expressed concern about its tax limitation feature, section 2 of the proposal. In an effort to gain the support of those members we drafted an alternative constitutional amendment without an explicit tax limitation provision. This proposal was approved by the committee in addition to Senate Joint Resolution 13.

I believe that either of the proposals approved by the Judiciary Committee would make a strong amendment to the Constitution. I am hopeful that in the near future the Senate will consider and approve one of these alternatives.

Let me suggest to the distinguished members of this committee that they take the time to look at the reports that will be filed on these proposals in the very near future. I believe that the reports contain compelling arguments for a constitutional amendment and attempt to address the most recurrent criticisms that have been raised about it.

Mr. Chairman, I am pleased that my testimony is being followed today by my distinguished colleague, Senator Hatch. As chairman of the Subcommittee on the Constitution, Senator Hatch has provided excellent leadership in the effort to pass this amendment. I believe this committee will benefit from his testimony.

Mr. Chairman, I just want to say that I have been working on a constitutional amendment to balance the budget since I've been in the Senate and I've been here 31 years. Senator Harry Byrd, Sr., and I worked on it but we never were able to get one through until just several years ago. We passed it through the Senate, as I said, and I'm hoping this time we will pass it through the Senate again and send it to the House and hope the House will pass it. It would be very helpful if the Joint Economic Committee would see fit to endorse either or both of these proposals that we are going to present to the Senate and which have been approved by the committee.

One is a simple balance the budget amendment. The other has the tax limitations that also would be very helpful in keeping the budget down. But we think either one of those, if you see fit to endorse either one, would be a great help to us probably in passing it through the Senate and maybe help the House to pass it through there.

Representative WYLIE. Senator, thank you very much for your very significant contribution. This member happens to agree with your position on the balanced budget amendment and I have supported that as a discipline which could bring spending under control and help us to reduce the massive deficits which we have been experiencing and I do know that you have been in the forefront of this fight for many, many years, ever since you've been in the Congress of the United States.

I think that the American people now regard the budget deficit as the No. 1 issue in the country and that maybe they're beginning to get behind this move, too, and that might help pass it in the House. As you said, you did pass it over in the Senate.

Mr. Johnson just mentioned that 43 States have balanced budget amendments. Do you believe that this could be the reason or could explain why State governments do not run surpluses? That's a pretty good leading question I think.

Senator THURMOND. I think that has a lot to do with State governments keeping their budgets balanced. I was Governor of South Carolina. We have a statute and we also have a constitutional amendment. We have to balance our budget. And any time the expenditures exceed the revenue, the legislature is required to act. They either have to cut the expenditures or raise revenue. Once when I was Governor they did both. They cut the expenditures some and they raised revenues to keep the budget balanced.

There's not a State in the Nation that's not better off financially in proportion to its resources than the Federal Government. The Federal Government is in worse shape financially than any State in the Nation in proportion, as I said, to its resources. It just doesn't make sense. I don't think it's fair. I have four little children and you have children and, of course, we are all interested in them and we're interested in the future generations, and it's not fair to impose on them a burden that they ought not have to bear.

I think every generation ought to pay its own way through this world and it's nothing but fair to the future of this country and future generations that we take steps and take them now. As I said, we haven't balanced the budget but one time in 25 years. How much longer can we go? Where is an individual, where is a corporation in this country that could stay in business that didn't balance its budget even once in 10 years? I know of none. And we've been 25 years and balanced it only once.

I think it's an emergency. I think the No. 1 problem, as you stated, in this country today is the deficit. The people are more interested in that than they are in tax reform. They are more interested in that than most anything, and they ought to be. Public opinion I think is ripe now for us to do something and I believe if we get it out this year, through the Senate, and send it to the House, I hope the House will pass it.

I think a recommendation by this joint committee of either one of these proposals that we are offering to the Senate or both of them, if you want to endorse both, would help. Of course, we would have to choose one or the other.

Representative WYLIE. Thank you very much, Senator. I know you have another commitment and it's a pleasure to have you here this morning.

Senator THURMOND. I appreciate your letting me appear and I thank Mr. Johnson for letting me interrupt his statement.

Representative WYLIE. Mr. Johnson, thank you very much for the accommodation and you may proceed with your testimony.

Mr. JOHNSON. Thank you, Mr. Chairman.

As I was saying before, I think that one of the main reasons why the administration strongly supports a constitutional amendment to balance the budget is that we still think that there are inherent structural problems in the budget process that don't seem to have been corrected by attempts at reform in the past, the 1974 Budget Act and the 1978 congressional statute that actually require a balanced budget. We think something more is actually needed.

The main reason why we do relates back to the point you made in your opening statement about the fact that there is this dynamic in the spending process that I think continues to encourage increased deficit spending, the main problem being, as you said, the fact that the benefits that come from direct Federal spending are highly concentrated to targeted beneficiaries while the taxes to finance them are actually very diffused and dispersed throughout the entire population, in addition to the fact that in many cases in the past they have been hidden sources of revenue or hidden taxes.

So what you've had is a situation where beneficiaries are highly concentrated and well organized in terms of their lobbying efforts to support spending programs and the tax financing is dispersed among all the tax paying public and this leads to pressure for ever-growing spending and tax finance and deficit finance.

Now because of this problem, then, really there's no correction in the process until the system almost gets out of control and we have severe economic dislocations that result.

For instance, deficit spending to finance all of these benefits continues to grow and this eventually tends to put pressure on monetary policy to try to accommodate this excessive spending and so the pressure on monetary policy to create excessive money growth to support the rising spending eventually leads to inflationary pressures and, of course, the inflation that results with a highly progressive tax system allows incomes to be propelled to higher tax brackets and depreciates the value of depreciation deductions for investment and therefore causes false profits to be reported by corporations.

So the fact is, the process leads to increases in revenue that are hidden taxes because of bracket creep in the individual tax system, because of erosion of depreciation deductions, and the false profits of corporations that result in increased revenue to the Federal system and, of course, this increased windfall revenue to the Federal Government results in a form of hidden taxes then allows the Congress to spend more for programs. This system continues to perpetuate itself with no corrective mechanism.

So I think ultimately what happens is the dramatically rising inflation finally forces the monetary authorities to have to try and correct the inflationary process and the result is recession, lost GNP, lost jobs through rising unemployment, and then more pressure resulting from this roller-coaster-type cycle on additional spending programs for income maintenance.

So there is sort of a continual loop in the system that continues to push for ever-rising spending pressures and this is something I think that we would like to resist.

Now there are two fundamental features that have been part of most of the proposed constitutional amendments. Senate Joint Resolution 13 has those two features which we are strongly in support of, those being first the fact that a three-fifths majority vote of all Members of the Congress is required for an unbalanced budget. Otherwise, spending must be in line with receipts and also, the second critical feature which I think and the administration thinks is extremely important in terms of a balanced budget, is the tax limitation provision which requires that a 51 percent majority of all Members must approve higher revenues than the growth rate in GNP from the previous year. We think that's extremely important because it limits the amount of spending increases to the rate of growth in GNP the previous year and it helps limit the size and scope of government growth.

The reason why we think that's so important is because it limits the rise in taxation to fund further spending and it forces the structure to try and deal with slowing the rate of growth of Federal spending rather than raising taxes.

The reason why that's important is that we think that it's the rate of Federal spending growth that ultimately is the major source of economic dislocation and problems. The main reason why we think that is is because it's the spending of the Federal Government that has to be financed. There are three ways to finance spending, as I inferred earlier. The first of those being that we can directly tax to finance that spending or we can borrow through the deficit to finance that spending, or we can pressure the central bank to print more money to accommodate the spending or buy the Treasury securities issued for borrowing purposes and therefore also fund spending increases.

But all of these means of finance—tax finance, bond finance, or excessive money creation—all have negative connotations. They all produce economic problems for the longrun stability and growth of this country. Therefore, unless we get spending under control—and the only way which we think we can help do that is to have a revenue limitation provision in the amendment—then, unless we get spending under control, we can't control these other means of finance. They are all equally bad.

So we think that it's critical that in fact we try and limit revenue and then force spending to be in line with that revenue and if Congress wants to increase taxes in order to attempt to balance the budget that way, they have to confront the public directly rather than through hidden mechanisms that have been in place in the past through individual tax bracket creep and erosion of depreciation allowances.

So we strongly support a constitutional amendment to balance the budget for the reasons that I've just summarized and we hope that we can see something like this through the Congress soon. We also are supportive of the Gramm-Rudman proposal which we think provides an important transition toward the constitutional amendment to balance the budget and provides an avenue in which we can reach budget balance and then pursue structural reform through a constitutional amendment.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF MANUEL H. JOHNSON

Mr. Chairman and members of the Subcommittee.

It is a pleasure to be with you today to discuss a proposal that would amend the Constitution to require a balanced budget.

The Need For An Amendment

The President and the Administration endorse strongly enactment of a balanced budget amendment to help restore fiscal responsibility to the Federal Government.

The President has reconfirmed repeatedly his strong support for a constitutional amendment mandating a balanced Federal budget. In his last State of the Union Message he requested that the Congress enact such a measure. The last time a vote was taken in the Congress in 1982, a balanced budget amendment was approved by more than two-thirds of the Senate and by more than a majority but less than the necessary two-thirds of the House.

The public is overwhelmingly behind the concept of a balanced budget. A survey last year revealed that nearly 85 percent of those polled favored a balanced budget amendment. Thirty-two State legislatures have approved resolutions calling for a Constitutional Convention to consider the issue, and there are several more States, particularly Michigan, Connecticut and Ohio where final action is possible in the near term.

It is clear to the President and to the public that something must be done to restrain the upward spiral in Federal spending. The Federal Government continues to absorb too great a share of GNP. Between fiscal year 1960 and 1985, the growth of Federal spending was much faster than the growth of the economy. As a result, the Federal Government share of total output jumped from 18.5 percent in 1960 to about 25 percent by 1985.

The growth in government spending has been accompanied by large increases in the Federal tax burden. By 1981, corporate taxes had more than doubled since the mid-1960's, leaving real after-tax, after inflation profits below levels reached some fifteen years ago. In spite of tax reductions, personal income taxes as a percent of personal income rose from about 10 percent in 1975 to 11.5 percent by 1980 and had been projected to rise to over 15 percent by 1985 without any major tax reduction. If we take account of social security tax increases, the average tax rates rose from 12.7 percent to 14.5 percent during this period and would have increased to nearly 19 percent by 1985. Marginal tax rates rose even faster to sharply higher levels.

Throughout the economy, the rising tax burden seriously eroded incentives to work, save and invest, and contributed to the economic decline that we experienced until recently -- high inflation and unemployment, and slow growth which, in turn, have contributed to higher budget deficits.

Even with the tax reductions in 1981, overall tax receipts of the Federal Government rose more than $380 billion from FY 1977 to FY 1985 and still we accumulated deficits of over $1 trillion.

Mr. Chairman, the only conclusion is that Federal Government spending continues to grow out of control. Some critics are quick to put the blame for large deficits on the Administration's tax reductions and defense spending increases. This is just not correct, however. The revenue estimates in the August 30 Mid-Session Review of the Fiscal Year 1986 Budget show that under Administration policies the government's tax claim on income in the 1985-1990 period would be between 18.8 percent and 19.4 percent of GNP -- about a full percentage point or more above the nearly 18.1 percent share of the 1946-1970 period. The national defense share of the GNP will rise only to 7.6 percent of GNP by 1990, well below the 9.7 percent share during the 1946-1970 period.

The driving force behind the rise in the budget deficit is not the Administration's tax policy but the combination of the past recession and the growth of non-defense spending. In spite of efforts by the President and some thoughtful members of the Congress to trim non-defense spending, it continues to grow significantly.

If the Federal Government did not have such a dismal record on spending control, I might be more optimistic that we could move toward a balanced budget. Indeed, favorable Congressional action on the spending reduction targets included in the first Budget Resolution for 1986 might change the public's impression that constitutional restrictions on budget planning are absolutely necessary. However, a demonstration that the current budget structure is capable of dealing effectively with the spending problem is yet to be seen.

Congressional Budget Reform

I would feel much more confident that the political process was conducive to dealing head on with the structural budget problem if we had a balanced budget requirement. Over the years the Congress has tried to respond to concerns about government spending, deficits and budgetary control. The most recent attempt at reform was the Congressional Budget and Impoundment Control Act of 1974 which was intended to bring about Congressional control over the budget process. Unfortunately the reforms implemented by this Act have not been successful in constraining Federal spending.

Congress has made other attempts to bring about fiscal responsibility. In 1978, for instance, the Congress approved a statute requiring a balanced budget beginning in 1981. It is quite evident that this statutory approach for requiring budget balance has not been successful. Indeed, it was ignored!

Obviously, something is amiss in the budget making process if the Congress, even after enacting legislation requiring budgetary discipline, frequently fails to live within its means. It has not always been this way. For most of our history through the 1920's, Federal spending ranged between 1 and 3 percent of national output; spending for past or current wars accounted for the major variations in this share. During most peacetime years in this period the Federal budget was in surplus. Since 1930, a period spanning more than 50 years, there has been a budget surplus on only eight occasions and half of those were shortly after World War II.

Expansion of Government

The pressure for ever-larger government is intense and very hard to resist. Those who gain directly or indirectly from Federal transfer or spending programs perceive the benefits of such programs very clearly. However, the tax cost to benefit recipients seems low because taxes to pay for special programs are distributed throughout the population. Therefore, a net transfer of wealth from taxpayers to program beneficiaries takes place. It is only when we total up the bill, and begin to experience the adverse consequences of overspending and overtaxing on economic growth, employment, living standards and interest rates, that the costs become evident. Transfer recipients have become powerful organized lobbyists because the benefits they receive are highly concentrated and quite obvious. Unfortunately, taxpayers in general are initially not organized as effectively because the additional taxes necessary to pay for these transfer payments are diffused among all taxpayers. Hence for a while, the burden on any one taxpayer seems modest, until spending becomes inflationary and incomes are forced by higher prices into tax brackets once reserved for the very rich.

In addition, Federal spending has increased rapidly over the years because of the emphasis on Keynesian countercyclical stabilization policies. In the past, the government has enacted spending programs intended to help spend the economy out of a recession. Although these programs, such as public service employment, were to be temporary, in fact some turned out to be permanent. Thus, instead of being phased out after economic recovery was underway, spending continued indefinitely, expanding the government expenditure base.

On the revenue side, for too long it had been easy to raise the tax burden, primarily through inflation and bracket creep. Revenue increases have been largely automatic, seldom requiring legislation.

Prior to enactment of the Economic Recovery Tax Act of 1981, inflation, a progressive tax code, and outmoded depreciation rules had combined to raise revenues in a particularly damaging fashion, striking directly at the rewards to saving, work effort and investment. As inflation drove taxpayers into higher tax brackets, the rate of return on additional saving and work effort fell. As inflation crippled the depreciation writeoffs, the after-tax cost of plant and equipment rose and the rate of return fell. The reduced supplies of labor and capital retarded economic growth.

Reduced growth has cost the government a large portion of the revenues it might otherwise have expected, and has required higher outlays on income support programs. The government has had more receipts, but it has collected them by driving tax rates higher on a smaller economy, and has had to spend them relieving the suffering that slow growth has caused.

Unfortunately, some individuals have not learned a lesson from our past mistakes. They continue to argue for increasing tax rates in order to balance the budget. This approach has not worked in the past and it will not be successful in the future. Economic growth and restraint on the growth of Federal spending are the keys to the deficit problem.

This is why we need a balanced budget amendment. Such an amendment will restrain the size of government as well as reduce the frequency and size of budget deficits, while maintaining sufficient flexibility to be workable and to function in a time of crisis. All these considerations prompted the Administration to support the adoption of House and Senate Joint Resolutions during the past several Congresses calling for a balanced budget and to restate its support for similar resolutions now pending in the current 99th Congress.

In addition, President Reagan has called for passage of a constitutional amendment as well as S. 43, Senator Mattingly's bill, that would permit the Chief Executive to veto individual items in appropriation bills without having to veto the entire bill. Regretably, last July the Senate refused three times to end a filibuster by opponents of Senator Mattingly's bill, but we continue to support passage of a line item veto authority. Forty-three of our 50 States grant their governors this right that works as a powerful tool against wasteful or extravagant spending. This tool does not work automatically, of course, but put in the hands of a President that is intent on slowing the growth of spending it can be very effective.

A Summary of Current Amendments

Currently, S.J. Res. 13 is pending before the Senate and would amend the Constitution to require a balanced budget. I am sure that the Subcommittee is familiar with this Resolution, which is virtually identical to those introduced during previous sessions of the Congress. Therefore, I will only briefly summarize what the amendment proposed in the Senate Resolution, would do.

Section 1 would restrain deficits. It would require Congress to adopt a budget for each year in which planned Federal spending could not exceed receipts, except in the case of a super-majority vote. In other words, the First Congressional Resolution on the Budget would be required to plan outlays that equal receipts including so-called off-budget spending. Should Congress decide to plan a deficit, it would have to approve a specific dollar amount of deficit spending by a three-fifths vote of the entire membership of each House of Congress -- that is, at least 60 of the 100 Senators and 261 of the 435 Representatives. The amendment charges the Congress and the President with ensuring that actual outlays (including off-budget) do not exceed the amount of outlays adopted in the budget statement, unless approved by a three-fifths vote. Language has been included in this Section to clarify an ambiguity in an earlier version of the amendment concerning the extent of the President's powers to ensure that actual outlays do not exceed stated outlays.

Section 2 would limit the growth of government. It would limit receipts so they could not increase at a rate faster than the growth of some measure of the previous year's income. That growth limitation could be overridden only by a bill directed solely to increasing taxes which was approved by a constitutional majority (50 percent of the total membership plus one) of both Houses of Congress and signed by the President.

Section 3 would require the President, prior to each fiscal year, to transmit to the Congress a proposed statement of receipts and outlays for that fiscal year consistent with the provisions of the article amending the Constitution.

Section 4 would allow Congress to waive the amendment for any fiscal year in which a declaration of war was in effect.

Section 5 defines the terms "outlays" to include all outlays of the United States except those for repayment of debt principal, and "receipts" to include all receipts of the United States except those derived from borrowing. These definitions would apply when Congress adopts the annual statement as required by Section 1 of the amendment.

Section 6 provides and makes clear that the Congress has the legislative authority to implement the powers and responsibilities of the amendment.

Section 7 states that the provisions of the amendment shall be effective as of the second fiscal year beginning after the amendment is ratified.

How the Amendment Would Work

Section 1 would not require a balanced budget statement. It simply sets more stringent voting requirements for an unbalanced budget. Congress can adopt an unbalanced budget statement if three-fifths of the entire membership of each House vote for it. Also, the Congress is not restricted in amending the budget statement during the fiscal year, as long as the voting requirements--three fifths of the entire membership of each House for a deficit, and an ordinary majority for a balanced budget--are met.

Thus, the flexibility of the budget process would be maintained. If for reasons of great national concern it were necessary for Federal spending to exceed revenues, Congress could vote to allow this to happen. However, by requiring Congress to otherwise "adopt a statement of receipts and outlays for that year in which total outlays are no greater than total receipts," the amendment would establish a balanced budget as the budgetary "norm," which would be passed by a normal majority vote. An institutional bias in favor of deficit spending would thereby be corrected.

The Senate Joint Resolution also provides for deficits in wartime, permitting the Congress to waive its requirements for any year in which a declaration of war is in effect. A wide variety of events, not necessarily entailing a declaration of war may, however, pose threats to national security. The Administration has, therefore, in the past encouraged the Congress to amend the current language of the amendment to allow a broader range of events -- unforeseen events posing an imminent threat to national security -- to qualify for a waiver.

Section 2 would limit the growth of Federal revenues to the rate of growth of some measure of income unless Congress, by a majority vote of the membership of each chamber, decided to raise taxes to a higher level. For example, if the GNP rose by ten percent in the previous calendar year, tax receipts could not rise by more than ten percent in the succeeding fiscal year unless a majority of all the members of Congress explicitly voted otherwise.

This procedure contrasts markedly with the operation of the tax system in recent years, during which taxes, particularly the individual income tax, have grown more rapidly than GNP even without a Congressional vote. For whenever inflation reached a level of, say, 10 percent, the government collected roughly 15 percent more from personal incomes due to "bracket creep," and took in further revenue by causing depreciation to be understated. Indeed, the government profited substantially from inflation.

To some extent, this problem has been addressed by the indexation and Accelerated Cost Recovery System provisions of the Economic Recovery Tax Act of 1981. The indexation proposals in the Treasury Department's Tax reform package sent to the Congress earlier this year would help address further this problem. However, Section 2 would extend this safeguard against unlegislated tax increases to other forms of taxation as well. For example, it would prevent backet creep due to real income gains. There is no justification for the government's share of GNP to increase automatically as GNP grows, whether the growth is real or due to inflation. Just because the output of the economy is expanding is no reason for the government to expand faster than the economy's output. On the other hand, there is every reason to encourage the government to pursue sound policies to induce economic growth, thereby making additional government spending as well as private spending possible.

The amendment would strengthen further the principle of accountability by requiring Congress to vote on a specific bill to increase taxes instead of adding a tax increase as an amendment to another bill, as is often done now.

The Founding Fathers intended that the people would never be taxed without their express consent, which is why they required that all revenue bills originate in the House -- at the time the only chamber directly elected by the people. The Founding Fathers did not anticipate that a progressive income tax, coupled with inflation, would negate this principle. This amendment would restore the clear intent of the creators of the Constitution.

Section 5 of the pending Senate Joint Resolution addresses the problem of so-called "off-budget expenditures" -- expenditures that are made by the Federal Government and thereby add to the total public debt burden, but are not included in the regular budget.

In 1973, when this device was first adopted, off-budget agencies spent less than 0.1 billion. Such spending peaked at $21 billion in 1981 and has declined every year since then, falling to $10 billion in 1984. Off-budget outlays are estimated to have been $10 billion in the fiscal year just concluded but the President's 1986 budget reduces such spending sharply after 1985 and the Mid-Session Review shows that in 1988 and later years off-budget spending would become sizable negative amounts. Both for the sake of fairness and accurate economic accounting, this amount of spending should be added to the deficit. Section 5 of the proposed article would require this type of treatment, as would, incidentally, legislation proposed by the Administration. In fact, the 1986 budget treats the entities that are off-budget under current law as though they were on- budget. If this proposed change is approved by the Congress -- the Congress has not yet acted upon the Administration's proposed legislation but the Senate and the House have tacitly agreed to the proposal in principle by using in the Budget Resolution total budget outlays, including off-budget spending -- or if the constitutional amendment is enacted and approved, Federal Government expenditures would no longer be divided into on- and off-budget outlays. The term "outlays" would mean just that-- all government obligations of taxpayer funds, with the single exception of repayment of debt principal.

Workability of the Amendment

Critics of the balanced budget/tax limitation amendment object to it on two principal grounds: that the amendment would be such an "iron commandment" that it might force the United States into contractionary economic policies or that it would be so ineffective as to be constantly circumvented.

Those who argue that the amendment is a "formula for economic decline" claim that the amendment would force drastic spending cuts during recessions. In fact, the amendment would do no such thing. Unanticipated revenue declines would not require immediate offsets in spending. The balanced budget rule would probably lead to an actual budget deficit when the economy is weaker than expected in the official Administration economic forecast and an actual budget surplus when the economy is stronger than expected.

It should be emphasized, however, that spending restraint *per se* does not necessarily constrain the economy. This is an old Keynesian notion that does not take into consideration other policy mechanisms that also have an impact on the economy. Thus, even if spending is restrained, aggregate demand would not fall if monetary policy is not tightened. If monetary policy is tightened, maintaining government spending might not prevent aggregate demand and eventually the economy from slowing. It is the policy mix that is important for assuring steady, sustainable economic growth.

In any event, Congress could continue to enact unbalanced budgets during an economic downturn if three-fifths of the members of both Houses agreed. While this standard is stringent -- as it should be -- it is by no means insuperable. If an economic crisis urgently demanded additional Federal spending, the mechanism for permitting it would be firmly in place.

Moreover, unforeseen spending needs could be accommodated in advance through the establishment of a reserve or contingency fund to cover outlays that exceeded their expected level. During the past two recessions, the increase in actual 1980 and 1981 outlays resulting from unexpected economic developments, higher unemployment for instance, was about 5 percent of total outlays each year. Thus, a reserve of 5 to 8 percent should be sufficient.

At the same time, economic downturns should not be automatic justifications for greatly increased spending. While certain payments, such as those for income support, would rise with higher unemployment levels, the Congress should be expected to make up at least part of the difference by further trimming back lower priority spending. The three-fifths vote requirement would ensure that this option is given a fair hearing. Similar procedures for prioritizing outlays and contingency funding have been used by businesses and state and local governments for many years.

The second major objection, that the amendment would be circumvented, is similarly without foundation. In particular, the terms "outlays" and "receipts" are explicitly defined both in the amendment and in the legislative history; there should be no dispute about their meaning, and thus no successful attempt to subvert the amendment's intent by redefining its terms.

Similarly, even if the President's proposal to bring off-budget agencies on-budget is not enacted, the amendment also specifically prohibits the exclusion of off-budget outlays from the budget statements. Thus, the present tactic of maintaining high spending levels by shifting programs "off-budget" could not be used to circumvent the requirement for a balanced budget statement.

It is true, of course, that the amendment will not eliminate spending pressures; this is neither possible nor necessary. The amendment will, however, provide a far more effective means for coping with these pressures, to ensure that they do not play the inordinate role they have in recent years in keeping spending high.

It is also true that adoption of the Amendment would not solve the deficit problem overnight, but serious supporters of the amendment have never claimed that it would. It might take several years before the budget could be brought back completely into balance. In the meantime, however, members of the Congress would be required to develop a sense of discipline when authorizing spending totals.

A final concern is the wisdom of addressing economic matters in the Constitution. This is a false issue; the Constitution already applies to many areas of economic activity. For example, it regulates certain taxing powers, the imposition by States of tariffs or duties, Congressional appropriation procedures, and the coinage of money. It also assigns Congress the authority to regulate interstate commerce. The addition of the balanced budget/tax limitation amendment to the Constitution, by establishing a standard for budget-making procedures, merely follows in this spirit.

Conclusion

The fact that thirty-two State legislatures have approved resolutions calling for a Constitutional convention to consider a balanced budget amendment, and several more States are considering such a resolution, shows that the amendment has massive support in State legislatures. The overwhelming popular support for a balanced budget amendment stems directly from Americans' understandable frustrations with years of high inflation, rising taxes, real declines in purchasing power, and a seemingly endless cycle of Federal deficit spending. Individual Americans who must live within their own means have every right to expect and demand that their government do so as well. Therefore, the Administration urges the Congress to adopt the Constitutional amendment now pending before it.

Representative Wylie. Thank you very much, Mr. Johnson. We have interrupted you twice and we started late. There are some time constraints here and Senator Simon has arrived and Congressman Jacobs and they will be put on because they both must attend other meetings. What I would like to do is pose some questions which we could submit to you in writing. I have three or four here myself which I will submit, if that's all right with you.

I did have one that I would ask you to comment on publicly here. That is, section 2 of the balanced budget tax limitation amendment states that total receipts cannot rise at a faster rate than national income.

Now is that an effective tax limitation? I ask that because during times of inflation the national income could give us an aberration.

Mr. Johnson. Well, that's always a possibility, that if you're looking at nominal national income growth, obviously if inflation were a larger component of that or substantial component of that, it does inflate the revenue that could be obtained the following year.

However, we have tried to support structural changes in the tax system that we think would help avoid inflationary pressures and we have supported restraint in monetary policy that we think can avoid inflationary pressures.

Once again, I think if we get this structure in place that we mentioned, the two major provisions, that we will take away a lot of the dynamic incentives to actually create inflation in the system. But it is possible that limiting revenues to the previous year's national income growth could be—a large component of that could be inflation. However, I think with the right kind of monetary policy we can avoid that.

Representative Wylie. Plus the fact that if we keep the deficit down we might not have inflationary pressures. So the two might go hand in hand.

Mr. Johnson. Yes, sir.

Representative Wylie. Mr. Johnson, thank you very much. You've been patient and understanding and we appreciate that. Your testimony has been very meaningful to this member and I know it will be to all members of the Joint Economic Committee, and I know that they will all read it and take it into account.

We will have some additional questions for you if you wouldn't mind answering those. Thank you very much.

Now I'd like to ask Senator Paul Simon if he would come to the table, and Congressman Andrew Jacobs. Would the two of you come up and sort of constitute a panel here? Senator Simon, welcome to the meeting of the Joint Economic Committee. I wasn't supposed to have been here this morning, but Senator Mattingly is tied up on other things and I was called to come over and be the chairman and I'm glad to be the chairman and to welcome you before the Joint Economic Committee and to receive your statement on the balanced budget amendment.

STATEMENT OF HON. PAUL SIMON, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator SIMON. I thank you, Mr. Chairman. It's good to be with two former House colleagues and I welcome both of you to the Senate side.

Representative WYLIE. Thank you.

Senator SIMON. It is important that we have a constitutional amendment but we must have one that is sound.

Right now we are working, as you know, with the Gramm-Rudman-Hollings proposal and I will probably vote for it, but it is only a statutory change and if the squeeze gets too tough on us, particularly next year, an election year, we will just change the law.

So while the Gramm-Rudman-Hollings proposal is starting to push us in the right direction, it is not going to be adequate.

We currently face three choices in constitutional amendments. One is to have the States call a constitutional convention. We have no way of knowing what a constitutional convention would do. They could tinker with the Bill of Rights. They could do all kinds of things. That seems to me to be a very unsound proposal.

Representative WYLIE. Let me interrupt you right there just because the point occurs to me. Do you think that we could limit the constitutional convention to one issue?

Senator SIMON. Well, I am in favor of trying, but because the courts have never tested a constitutional provision calling for a convention, there is a serious question. In the Senate Judiciary Committee, I supported the old Sam Ervin bill, but I don't know how the courts would decide on that question. I think that is a real danger because we're two States shy of having that constitutional convention.

The second proposal ties Federal spending to the growth of national income which is immediately politically attractive but has all kinds of flaws. It is not the kind of thing we ought to put into the Constitution.

First, if we have a recession, then government spending dips and you aggravate the recession. If we have a recession, government spending ought to go up, not down. The difficulty with us is government spending has been going up without any attention to the economy.

The second problem would be that 5 years from now or 10 years from now in Ohio and Indiana and Illinois and other States we decided we needed to tax ourselves 10 cents on a gallon of gas for roads and bridges for repairs—and that's not an unlikely possibility—under this constitutional amendment we would then have to reduce Social Security or education or farm programs or something else. Congress shouldn't be bound like that.

I don't know what's going to happen 30 years from now or 50 years from now. Let's not strap ourselves to something that is unworkable.

The third possibility is one that I've worked out with Senator Hatch. It is a very simple constitutional amendment, that simply says we have to balance the budget unless there's a three-fifths vote of Congress to the contrary, period.

We have four cosponsors, Senator Thurmond, Senator Hatch, Senator DeConcini, and me. You span the spectrum there ideologically, politically, every other way. I think that makes sense. This amendment, incidentally, was reported out of our Judiciary Committee 14 to 4. We did an unusual thing. We reported out two balanced budget amendments, the one with the ceiling on tax increases was reported out 11 to 7; and ours was reported out 14 to 4.

If we do not move toward a balanced budget, I think it is inevitable that the pressure is going to mount on the Federal Reserve Board and we will in fact monetize our debt and have runaway inflation. I think that is the grim reality.

Let me just mention a few other reasons why I think it is important to get ahold of deficits. On television last night, ABC reported that we are spending $146 billion this year on interest. The more accurate figure is $181 billion; $146 billion is only the net interest figure. This year interest is the No. 3 expense after Social Security and defense. By fiscal 1991, it may very well be No. 1. There is no question that if we continue to follow our present course, every 4 or 5 years the interest expenditure will double. You just can't keep that up very long without having a collapse of your economy.

Representative Wylie. I didn't understand the distinction between the $181 billion and the $146 billion. You said that that $146 billion was a net figure?

Senator Simon. $146 billion is a net interest expenditure. When a governmental institution draws interest—for example, Social Security or some other institution—that is then reduced from that gross expenditure.

Representative Wylie. The trust fund income reduces that deficit?

Senator Simon. That is correct. And what we really ought to be looking at is that gross interest expenditure. The reality is we're going to have some differences down the road, whether we spend money on defense or social programs, but if interest goes ahead as it is right now we're going to be locked out of any options. We're not even going to be able to argue whether we're going to spend money on defense or social programs because it's not going to be spent on either one. It's going to be spent on interest.

I notice that Paul Samuelson, the Nobel-winning economist, wrote an article for the Chicago Sun-Times not too long ago in which he said we may not have an economic collapse, but we're going to become an increasingly less progressive society because we're spending all this money on interest.

The other thing that's happening with interest is that we have the greatest redistribution of wealth in modern times taking place. The wealthy family with excess capital can realize advantages that only punish middle and lower income brackets. You really have to go back to the Middle Ages to the old feudal society to find any counterpart to it, and that ought to be stopped.

Right now, a meeting of the IMF over in Seoul, Korea, we're talking about current and future economic problems. We can do more for those developing nations by simply getting the United States interest rate down than any program they can come up in Seoul, Korea. That's Mexico's big problem. That's Brazil's big problem. That's Argentina's big problem.

We have trouble with corporate mergers right now in our country. Why are we having these corporate mergers? Well, because stocks are way below their actual value. Suddenly it becomes more profitable to explore for oil on the floor of the New York Stock Exchange than it does in Ohio and Illinois and Indiana.

Now why are those stocks way below value? Because real interest rates are so high. If we get those interest rates down the Dow Jones average could be 2½ times better than it is now. The big problem is we're shooting ourselves in the foot with our own fiscal policy.

Representative WYLIE. Senator, did you have a prepared statement?

Senator SIMON. I have a prepared statement. I would like to enter that in the record.

Representative WYLIE. That will be done.

[The prepared statement of Senator Simon follows:]

PREPARED STATEMENT OF HON. PAUL SIMON

Mr. Chairman, I am pleased today to speak with this subcommittee on the need for a balanced budget amendment. Since my first days in Congress, I have urged my colleagues to join me in supporting such a proposal.

During my years in government I have reached the unfortunate conclusion that while we have the ability to balance budgets in theory, in practice we have do not have the discipline to make the difficult choices that must be made.

Yet we cannot continue to run these staggering deficits year after year. Already interest payments on our national debt constitute the third largest budget expenditure behind defense spending and social security benefits. Most estimates predict that by the end of this decade, interest will be the single greatest government expense--accounting for half of the entire budget.

This year we are spending $181 billion on interest payments. In other words, every day the government throws away $500 million. Not one of those dollars goes to feeding the hungry, or sheltering the homeless, or educating our children, instead it is wasted on useless interest payments. Whatever side of the aisle you are on, you have to agree that this is not good public policy.

The size of our current deficits is also having an unnatural effect on our economy. The high interest rates brought about by these deficits is unfairly punishing low and middle income families. While the rich can reap the benefits of high-yield bonds, those without the money to play this high stakes game cannot afford to finance a mortgage, or make the payments on a new car, or put a son or daughter through college. The present deficits are causing a huge welfare-for-the-rich program; the greatest redistribution of wealth in our nation's history.

Beyond this our deficit spending is causing our worst trade deficit in history. The vast amount of foreign borrowing needed to finance these deficits has created an unnaturally strong dollar. American manufacturers too often cannot compete in international markets and cheaper foreign goods flood our domestic economy. We have already lost an estimated three million jobs to this trade deficit and countless more are sure to follow. Neither the current trade legislation, nor a dozen bills like them, will have much effect on our balance of trade until we bring the primary problem of the deficit under control.

And beyond these economic arguments lies a constitutional one. Thirty-two state legislatures have passed resolutions calling for a constitutional convention to address this issue if Congress does not pass an amendment calling for a balanced budget. Only two more states are needed to meet the three-fifths requirement for such a convention. We have never held such a meeting and no one here can imagine what effect this unprecedented convention would have on our democracy.

Clearly there is a dire need for a balanced budget amendment. In the Senate we are faced with two such choices. However, one option, the resolution I support along with Senators Thurmond, Hatch and DeConcini, is a decidedly better approach to the problem.

The Judiciary Committee's votes reflected this view--passing our amendment 14-4 compared with the 13-7 vote for S.J. Res. 13.

The other alternative, S.J. Res. 13 contains language that is not constitutional in spirit or substance. In particular, I object to section 2 of this resolution which tethers the growth in taxes to the growth in national income for a given year.

We should leave such decisions to future Congresses. We did not instruct the states on how to enforce Prohibition, nor did we make a progressive income tax part of the 16th amendment. Instead, there has always been an understanding that political decisions should be left to the political system.

I want an amendment that will balance the budget, but I also want an amendment that our children and grandchildren can live with.

S.J. Res. 13 does not have the flexibility that would allow for the changes that the next generation will have to face. If, for example, a future Congress felt that a 10-cent gasoline tax was needed to rebuild our nation's bridges and highways, under S.J. Res. 13 that Congress would have to cut Social Security, or student loans, or some other program in order to accomodate this new revenue.

There is no denying the current popularity of efforts to reduce the role of government. But I would not like to imagine the Great Depression had President Roosevelt's hands been tied by such a narrowly drawn and near-sighted amendment.

In fact, such periods of recession would actually be worsened by this resolution. During a downswing in the economy, government spending tends to increase as the demand for programs like food stamps and unemployment insurance, among others, increases. This increased government spending stimulates the economy and eventually we return on a path toward prosperity. But under S.J. Res. 13 we could not increase government services. Recessions would be deepened and prolonged and their effects would be more devastating.

The amendment I have cosponsored along with Senators Thurmond, Hatch and DeConcini is a more simple, clearly-worded, and bipartisan approach to this complex problem. It is an amendment that is fair both to our constituents and to future generations.

Our Constitution has been successful for over two hundred years because it was thoughtfully worded enough to allow each generation of lawmakers the opportunity to decide the best course for the American people. Today our freedom is threatened in an unprecedented way by the specter of these terrible deficits and we must decide the best course to follow. We must balance the budget in order to ensure our children an effective federal government and the freedom to find a job, buy a home for their family and pursue the American dream.

A properly worded balanced budget amendment would be a first step back to responsible fiscal planning and toward protecting our freedom for the generations that follow.

Representative **Wylie**. I thank you very, very much for appearing here before us to present your testimony in person and I find much with which to agree with you, and with so much agreement I don't understand why we're having so much difficulty coming to the balanced budget approach that we've been talking about for years and years.

Senator **Simon**. If I could just add one other word, I think the real key right now is whether we're going to have a simple constitutional amendment that we can agree upon. If you load it down with ties to the growth of national income and those kind of things, I can't vote for it. A lot of other people are going to be in that situation. A lot of States aren't going to approve it.

If we get something that is very simple, very direct, such a proposal that can and will be approved. I don't think we ought to incorporate our favorite political philosophy into a constitutional amendment. Let's leave that up to this Congress and future Congresses.

Representative **Wylie**. It ought to be straightforward and just address the question of fiscal responsibility and fiscal policy.

Senator **Simon**. Absolutely.

Representative **Wylie**. Thank you.

Senator **Simon**. I thank you very much, Mr. Chairman.

Representative **Wylie**. Thank you very much. I know that you're busy and you are introducing the Rudman amendment.

Senator **Simon**. And I'm sorry to miss the wisdom and wit of my colleague, Andy Jacobs—particularly the wit.

Representative **Wylie**. We'll send you a copy of the record. Thank you very much, Senator.

Now I'd like to welcome my distinguished colleague from the State of Indiana, a member of the very prestigious Ways and Means Committee, and you're in a very important markup now on the tax reform bill. You might want to get into how that relates to this subject this morning, but I know you have been talking a great deal about the balanced budget amendment off and on for years.

With that, I would welcome Congressman Andy Jacobs and we're glad to hear your testimony.

STATEMENT OF HON. ANDREW JACOBS, JR., A U.S. REPRESENTATIVE IN CONGRESS FROM THE 10TH CONGRESSIONAL DISTRICT OF THE STATE OF INDIANA

Representative **Jacobs**. I thank you, Mr. Chairman. I might reassure the Senator from Illinois that he's not going to miss a thing. He's already heard it a thousand times.

Ten years ago, I introduced a resolution for a constitutional amendment which provided essentially the following:

One, the accounts of the Federal Government must be brought into balance by gradation over a 3-year period.

Two, thereafter for 20 years there must be a surplus in the Federal account to retire 5 percent each year of the principal of the common debt, the public debt.

Three, that an exception could only be made if three-fourths of each House of the U.S. Congress should vote a national emergency.

Fourth, in the event that a national emergency had been declared that the amount borrowed could not exceed 10 percent of that year's budget and that that amount on a separate track must be paid back within 36 months.

Now the reason I introduced that—the current resolution, by the way, has the same provisions, House Resolution 31—the reason I did that, Mr. Chairman, was I have grown tired of New Year's resolutions. The measures considered before the Congress right now is a New Year's resolution. It is, as has been described, merely a statute binding nobody.

As a matter of fact, if a statute bound anybody, the very law that is sought to be amended which some people seek to amend already prohibits any further borrowing by the Federal Government, which is commonly known as the national debt limit, increased ritualistically year-in and year-out. That is a balanced budget law. And what does it mean? It's honored, of course, in the breach. A mere, you might say simple, majority can change it at will.

Then the next question that's raised, it seems to me, is that if this is such a great idea why didn't the founders put it in the Constitution in the first place? And the answer should be obvious to any high school civics student. When our Republic began, the Federal Government to most citizens was mostly a rumor. It was not the pervasive instrumentality it has become in the economic, really social life, and political life of this country.

There were two methods by which to amend the Constitution and probably that was one of the best examples of the incredible wisdom of those people who sweated, argued, and produced this marvelous document which has kept us free to what Lincoln called this latest generation.

One was that the Congress would initiate it. But the Congress has a conflict of interest in the question of balancing the budget.

What has happened in the last 5 years, the philosophy by which taxes were cut $750 billion and spending was increased by $1 trillion, can only be described as a philosophy somewhere to the left of "Whoopy." And it is a wonderful opportunity for politicians—as we learned, Mr. Chairman, when we came to Congress lo these many years ago—to vote for every appropriation and vote against every tax bill. That philosophy is in full force today, as I see it. Cut the taxes, increase spending, engage in wishful thinking.

Unfortunately, it won't work. Now the used car dealer says, "I'd like to give them away but my wife won't let me." It would be wonderful if Members of Congress could say to requests for excessive spending, "I'd like to spend that way but my Constitution won't let me."

Would a constitutional amendment be effective? Would someone find some way to evade it? Perhaps. There is one notable provision of the United States Constitution which has been effectively repealed by PR over a period of 25 or 30 years and that is the provision that says Congress shall have the power to declare war. There aren't very many people in the country any more who believe it and if the people don't believe what is in their Constitution it is no longer effectively in their Constitution.

I believe that this amendment would be effective because it is a matter of new enactment. It would be much on people's minds. The expectation of the populace would be the obedience to that provision of the Constitution. It is little known, but there is a law against any Federal workers using a Federal automobile to go to and from work. Yet we see Government limousines whisking big shots from Washington back and forth from their jobs every day. That statute was passed in about 1917 and is honored in the breach. It's long forgotten.

But if they passed that statute all over again, if we would pass it all over again, everybody would know about it again, and therefore I think this constitutional provision would be effective.

Now if we did not have the first amendment to the Constitution, it is my considered opinion that freedom of the press would be ancient history in the United States by now. There will always be someone clever enough in power to say that the newspapers or the television stations are not acting in—let's take the favorite of scoundrels—not acting in the national security interest of our country, and this or that paper ought to be closed down or we'll have to close censorship down so that when the troops sailed, the papers won't print it, or 1,000 excuses could have been made. But the people of this country expect the first amendment to be enforced and no politician has got away with closing down his favorite nemesis newspaper yet, except in the McCaudle—well, not even in the *McCaudle* case, during the reconstruction period when they put an editor in jail for writing an editorial critical of the Government. Come to think of that, I guess the Supreme Court did chicken out on that one, didn't it? In the *McCaudle* case, the Supreme Court prescribed that Professor Roedel in his volume "Nine Men" had hit rock bottom when it acquiesced to a statute of the Congress that denied an appeal by McCaudle after he had been incarcerated for an editorial critical of the U.S. Government.

But generally speaking, the first amendment has worked. I think this amendment would work.

When Ulysses sailed for home past the Isle of the Sirens, he had himself lashed to the mast so that the sweet entreaties would not alter his course but he still wanted to hear them.

That, to me, is the seat belt or the shoulder harness of the constitutional amendment that must be obeyed, as Senator Thurmond pointed out, from Congress to Congress.

Now finally, Mr. Chairman—by the way, over in our committee we were thinking about invoking a rule that no witness can say "finally" more than three times during his testimony.

Representative **Wylie**. You've only said it twice so far.

Representative **Jacobs**. I think that my country is headed for a great deal of pain in the next several years. This profligacy, particularly in the last 4 or 5 years, is going to come home to roost. When I say home, I include the repeal of the 30-percent withholding on foreign investment in the United States which went down last year and allowed our Government to export our deficit essentially to foreign countries, to sell U.S. bonds whose interest would be taxable to an American citizen is essentially tax-free to foreigners, which is really like taking two shots of heroin to get over one. All that is going to come home to roost and I think we're going to experience a good deal of pain, some people really hunger pain.

If the Senator from Illinois is right, that the Federal Reserve and the Government would be tempted to monetize the spending in a couple of years and inflation returns, then we have to know that even though money talks, when it slows to a whisper no one will listen. In the crash of 1939, it was said it was not the banks that closed but the McDonalds that closed and the department stores that closed because they wouldn't accept the fiat currency of the Government from that point on.

We are not what we were in the 1930's, living mostly on the land where the absence of currency in commerce could not starve us. We could as a people scratch out a living from the land, grow vegetables, and get by. We vegetarians would recommend that today, by the way. We are an urban, pacified society, and I have a feeling that when people hunger enough some humanity is lost.

So what I fear is not the pain that we may suffer; I think we have that coming. What I fear is the example of history. They say if you want to find out what a cowboy will do when he gets drunk, you find out what he did the last time he got drunk. And every country, including France, in the late 18th century which has foolishly accepted the doctrine of printing itself to false prosperity has lost its institutions of freedom. That is what I fear. If we lose a meal, that's like cutting off a fingernail. It will grow back. If we lose our freedom or, as General McArthur said at the 1952 Republican Convention, that corporation which could make the populace its playthings in 1 hour and its victims forever. If we come to the place where we become as desperate as the German people did in the late 1920's, then some leather-lung politician on the back of a flatbed truck is going to get us organized and lined up as people were in France in the 1790's for a little bit of mere bread a day, and that day our freedom will die and that is like losing an arm. It will not grow back.

That is what I fear and that is why I disagree with my friend from Illinois and say that the only way this amendment will ever be passed is the same way the amendment for direct election of U.S. Senators was passed—if enough States initiate the resolution, the pressure would be brought on our colleagues and ourselves to pass it and submit it to the several States. God willing, that will happen.

Thank you.

Representative Wylie. Thank you very much for an excellent and very colorful statement. At the end there, did I understand you to say that you thought it would be good if the States did endorse a constitutional convention?

Representative Jacobs. I think it's a dangerous medicine for a fatal illness, and therefore I would take it.

Representative Wylie. You would rather take it as the balanced budget amendment through the congressional process first, wouldn't you?

Representative Jacobs. Well, that first for me now, Mr. Chairman, is 10 years old.

Representative Wylie. OK.

Representative Jacobs. I introduced it first at the beginning of 1976 and I was naive enough to believe that it was going to pass the Congress in consequence of sweet reason. I have long since come to the conclusion that asking the Congress to pass that resolution is really like asking President Nixon to look into the Watergate troubles. There is a natural conflict in interest. It's the goat guarding the cabbage patch.

So I do believe, like the election of U.S. Senators, it's going to have to come up from the States and I acknowledge that it hasn't been tested in the courts and I believe it was Teddy Roosevelt who said, "What is constitutional and what is not depends on whether the fifth justice comes down heads or tails," and a former Governor of my own State, Justice Warren, said once, "I just took an oath to uphold whatever you have in your head." I understand all that. But I think the greatest likelihood is that it could be held to a single issue and the greatest likelihood, if we get the other two States, Congress will act and act in fairly rapid order to avoid it.

Representative WYLIE. All right. Thank you very much.

We have been joined by the distinguished Senator from New York. He has a brief statement. He has another meeting. I believe he has a question he wants to ask you.

Senator D'AMATO. Thank you very much, Mr. Chairman, and let me say that I was certainly interested in Congressman Andrew Jacobs' presentation.

Mr. Chairman, I share with you and others the sense of urgency and frustration that we have in dealing with the rising Federal deficits, which are rising at an increasing level and have reached astronomical proportions. When we're spending $150 billion a year in interest on the national debt, that's staggering. That's frightening. I think in 1960-61, during the Kennedy administration, we talked about $100 billion—$100 billion was spent for the entire budget, including Social Security, borrowing and everything. Now we're spending $150 billion on interest. And, of course, the sad, dark days of runaway inflation and interest rates at 21.5 percent, and so forth, loom ominously. We're kidding ourselves if we are convinced that this cannot happen again.

I cosponsored, and I am a strong supporter of, the balanced budget amendment, but I share a concern with the Congressman that it may never come to pass, certainly not the legislative approach; and so if it is undertaken by the States, I would be supportive and understanding that there are some questions, but I think we have to address this problem.

I'm interested in the illustration that you made in terms of the hero returning home who lashed himself to the mast?

Representative JACOBS. That was reported by Homer in the Odyssey.

Senator D'AMATO. What a Latin student. Were you good at Latin?

Representative JACOBS. I'll submit my biography for the record, sir.

Senator D'AMATO. Let there be no mistake that I strongly support the balanced budget amendment, and I think we need that kind of discipline. We absolutely need discipline because everyone is for cutting the deficit. They all say cut spending, but don't cut my favorite program, this Senator included, and I have at times. We all have favorite programs and we understand—"Don't cut my program." Well, we have to begin by saying that we are all in this together across the board, and we're going to have to make these cuts and hold down that spending. Otherwise, when you say, "I'm for fiscal discipline," it doesn't mean anything. We have to do it. That's why we need some process. We need a constitutional budget amendment that's going to deal with it.

Now having said that—and I'm strongly in favor of it—what we are dealing at this time with is a unique opportunity. We are faced with the proposition that the Government may run out of money. Maybe this is not the worst thing. We can always scrape up the money. By the way, we take in about $3 billion a day, don't we—about $3 billion a day comes in—so maybe we will have to defer certain payments so we can pay the Social Security and veterans and make decisions as to those who absolutely must get the flow of Federal dollars. We'll have to defer some others, and maybe some contractor who will have to be held up a little bit.

But it seems to me that if we don't at this time, when we're crossing a $2 trillion mark in terms of our cumulative debt, say, "Well, we are going to do more than lipservice. We're going to enact a program that deals with meaningful deficit reduction." I don't care whose name is attached to it, Democrat or Republican. My gosh, let's get to the business of doing the people's work.

This is why I am supportive of the Gramm-Rudman-Hollings proposal, which would reduce the deficit over the next 5 years, through 1991, at the rate of $36 billion a year, each year, so we get the budget in line. There are many things that can be said in that we're not proposing to knock it off in 1 year. We know that's unreasonable, even 2 years or 3 years. But over the next 5 years, through fiscal 1991, can't we find enough discipline within us, given that revenues are increasing, given that the budget will be going up, to reduce spending levels by $36 billion a year? So I'm supportive of this initiative.

What do you think of that approach?

Representative **Jacobs**. Well, Senator, I think that the way to cut Federal spending is to remember the old Russian foreign trade procedures. They used to export the things they needed and import the things they needed worse. What we ought to do is cut the things we need and keep the things we need worse.

The fuss really ought to be—and there will always be a fuss—I mean, in any family, do we need a new car, do we need a new refrigerator, or do the kids need shoes or what—but in most families there's no fuss at least about, we have to have the money before we can do it.

Just to give you an example. Ask the American people what they think about giving a third of a million dollars each to ex-Presidents. I mean, supporting one President isn't cheap, but to support three—they say, well, they get a lot of mail. A letter to an ex-President isn't Government business.

My point is this. That it's always—where Stronekoff in Dr. Zhivago—or as my nephews call it, Dr. Chicago—where Stronekoff goes zooming by in the big locomotive and the peasants—he's a big hero and they shout his name in adulation and one peasant lady says to the other, "They say he eats the same rations as his men." That's good statescraft and that's not practiced very much. It's the old story, "Do as I say, not as I do."

And when you give examples such as I have just given that these fellows, each one of whom make a pretty fair speech on fiscal responsibility, will accept this over and above their pensions of $80,000 a year from the taxpayers and some pensions higher than that in the double-dip case of one former President, that gives an example to everybody in the Federal Government, every Member of Congress, every last person working down the line—"They're getting theirs; I'll get mine."

I'm a former police officer and I'm here to tell you that when the guy at the top, the chief, never took an apple off of a fruitstand or never took a sawbuck to look the other way for a parking violation, that goes down the ranks. But if that fellow went up through the ranks doing that sort of thing, then you will have a corrupt police department. Leadership doesn't mean those things. It means these things. It means Congress actually doing something.

Senator D'AMATO. We agree about honesty and the need to curtail spending. Both you and the chairman and I can agree on that. But I'm as frustrated as you are—I've been here 5 years and you've been here longer—in attempting to enact a balanced budget resolution or a line item veto which we can't get, but which 41 Governors can. They can veto parts of spending. The President can't. I think he should. I think he should have that capability.

But here we are, this year we have an opportunity to enact a legislative proposal that will instruct Congress—you and me—to make cuts of $36 billion a year over the next 5 years, reducing the budget deficit to zero. If we don't, the President then has the right to do it by making percentage cuts across the board, excluding Social Security—I don't want to get into whether we should or shouldn't—there's a body of opinion that says we should, fine. Put that aside. Do you support that? Is that a way?

Representative JACOBS. Sure I support it. I supported the one we passed in 1978 that said essentially the same thing. It's on the books right now.

Senator D'AMATO. Would that move us to do what we have to? It's kind of like Homer lashing himself to the ship?

Representative JACOBS. All we have to do is not repeal the present debt limit and we have it. It's already the law of the land. It's ironic that this New Year's resolution that in the next 3 years we're going to stop drinking, in the figurative sense, that—it's ironic that that should be attached to a bill to repeal the law that already says you can't borrow another nickel. I'm with you. Let's just vote that down. Let's just leave it that way and while we're at it, let us pass—we don't need any President, we don't need any Member of Congress. All we need to do is pass something that says across the board there will be a 10-percent cut.

Now believe me, I don't believe in the priorities of this administration. I don't believe in billions for defense waste and not 1 cent for what we're supposed to be defending as I judge it to be. Now you see it probably just the opposite as I see it, and that's where we have an honest difference of opinion. That's fine. But what I am saying now is that——

Senator D'AMATO. Now wait, Congressman. You don't want to say that I believe in billions for waste.

Representative JACOBS. No.

Senator D'Amato. I never said that, and so let's say that you and I agree that we don't want billions wasted.

Representative Jacobs. Yes; let's say that our real difference of opinion is that I look at an MX as a little closer to a $600 toilet seat than you do.

Senator D'Amato. Well, I have never sat on a $600 toilet seat, nor do I intend to, nor do I think we should be buying them.

Representative Jacobs. No; I said we would agree on that. I say where we disagree is that an MX looks like a $600 toilet seat to me but it looks like a peacekeeper to you, I imagine. But that's all right. We have our honest differences of opinion like everyone else.

Senator D'Amato. We understand those differences.

Representative Jacobs. But the point I'm trying to make is I don't like the priorities that have been established in the past few years. It used to be I was a rank conservative because I voted against all the waste I saw in the social programs. Then when they wanted to take 3 million children off the school lunch program, I agreed with them on 2 million of them, but the third million were certifiably poor children and I did not agree with that.

Then the idea of freezing everything or reducing everything across the board is repugnant to me because the people who disagree with me are the ones who have established the priorities. But I am so afraid of the loss of the freedom of my kids and their kids and all the wonderful people who will live on this Earth after we are long gone, I am so frightened about that, that I'm willing to temporarily accept the priorities that are there and reduce everything by 10 percent to save the life of this nation.

Now that's what we ought to do. We ought to say, "All right, the debt limit is this. We're not going to vote $2 trillion. We're going to reduce the spending according to an even percentage right across the board and take care of it that way." That's the way I would do it.

Representative Wylie. I hope that we would have an opportunity to continue this dialog at another time. This has been very, very interesting and you have added another dimension to our hearing this morning and we thank you very much for your wonderful, meaningful testimony.

We have another panel. I would correct the record and say that we are receiving an income of a little over $2 billion a day right now revenue, and the way the $3 billion figure came up was in the course of the debate on this Gramm-Rudmen amendment would be about $3 billion a day by 1991 from the amendment.

Representative Jacobs. Mr. Chairman, for the record, I believe it's correct to say we're borrowing $575 million each and every day of this year.

Representative Wylie. I certainly do believe that is a correct statement for the record.

Thank you very much for being here. You have been an excellent witness and we appreciate your testimony.

Next we will hear from a very distinguished panel made up of Mr. Martin Anderson from the Hoover Institution of Stanford University; Mr. William Stubblebine from Claremont McKenna College; and Mr. Dwight Lee from the University of Georgia. Mr. Lee has been here before and we've heard from him.

I think what we'd like to do, gentlemen, you have prepared statements. We will put those in the record and what we would like for you to do is to summarize, if you would. I'm sorry we're running a little later now than we anticipated but we're getting into a good hearing here this morning on a very, very timely topic and one which is very important to all of us.

Mr. Anderson, if you would summarize your testimony with the understanding that your prepared statement will be incorporated in the record.

STATEMENT OF MARTIN ANDERSON, SENIOR FELLOW, THE HOOVER INSTITUTION, STANFORD UNIVERSITY, STANFORD, CA

Mr. ANDERSON. Thank you, Mr. Chairman. I appreciate the opportunity to appear before the committee.

I do want to point out that my testimony was prepared and sent to the committee last Wednesday and most of the statement made the arguments why we should go to a 5-year phaseout of the deficit. Events have since outrun my testimony.

I think that there is now an extraordinary opportunity to really do something about a balanced budget. Let me address some of the practical problems of implementing that balanced budget economically and politically.

I think there are two difficulties with the current proposed amendment. One is the degree of uncertainty as to how long it will take to actually ratify the amendment and get it in place. And, two, the current amendment, as I understand it, requires the balanced budget to become effective during the second fiscal year.

As to the first problem, I may be wrong, but I think that the amendment may be ratified much more quickly than anyone thinks. Most of our experience is based on the recent equal rights amendment. But the last amendment that was added to the Constitution took just 3 months to ratify and the average time for ratification for the last four amendments was 12 months.

Given the popularity of this amendment, if we produce a practical one, it could be ratified in a matter of months.

That brings us to the real problem of how do you get rid of a $200 billion deficit in a year or two? And the answer is, you can't and you won't, not without damaging our national security or our Social Security programs or raising taxes to intolerable levels that would be counterproductive.

I think that the extraordinary opportunity that the deficit debate of the last few days brings us is an effective, practical way to move from that $200 billion deficit down to zero.

So briefly, my recommendation would be this. If that legislation passes, take the opportunity——

Senator D'AMATO. You're now talking about the Gramm-Rudman proposal that I was just talking about before?

Mr. ANDERSON. Exactly.

Senator D'AMATO. The Gramm-Rudman proposal calls for five equal reductions of the outstanding balance over the next 5 years?

Mr. ANDERSON. Yes; if that should pass, then I would recommend adding a section to the proposed amendment that would make the balanced budget effective as of the fall of 1990 which, I believe, would coincide with the legislation.

If for some reason that legislation does not pass, then there would be an opportunity to integrate such a phaseout provision into the balanced budget amendment. And just to reemphasize what everybody has said before, it's extremely important to the economy that we do it and I think now we have the political means of accomplishing it. Thank you, Mr. Chairman.

[The prepared statement of Mr. Anderson, together with attached articles, follows:]

PREPARED STATEMENT OF MARTIN ANDERSON

I appreciate the opportunity to appear before this distinguished committee. I know that you are all quite familiar with the complex arguments for and against adding a balanced budget amendment to our constitution. My personal view -- based on a number of years spent in presidential campaigns and on White House staffs and on studying and writing about the issue -- is that a balanced budget amendment, including a provision to limit federal spending, is necessary if we are to ensure the future economic prosperity of our country.

Today I would like to focus on one particular aspect of such an amendment, an aspect that seems to trouble even many of those who support it. If Congress were to propose a balanced budget amendment and it were ratified by the states, it is unclear how much time would be allowed to implement it.

If the amendment were to take effect for the second fiscal year beginning after its ratification, as now proposed, it would have the following difficulties:

(1) It is uncertain as to how long it would take the states to ratify, or indeed, if they would ratify.

(2) Reducing the federal budget deficit by over $200 billion by the end of the second fiscal year after ratification is probably impossible. The impact of spending cuts in social welfare programs and national defense and tax increases of that order of magnitude in that short a period of time could have a very damaging impact on the economy that would overwhelm the positive results of the amendment.

Some supporters of the amendment have indicated to me they feel these problems will be minimal because they expect the process of ratification to take several years, giving the federal government plenty of time to make the necessary deficit reductions. I don't share their equanimity about this.

To begin with, the amendment enjoys such widespread popular support in this country that it is very likely to be ratified in a matter of months, not years.

Our recent experience with the Equal Rights Amendment is not typical. The last amendment to our Constitution -- voting at age 18 -- took just three months to ratify. The average time for ratification of the last four amendments is just a little over 12 months. And even if it did take several years to ratify, there is no reason to believe that the Executive Branch and the Congress would systematically take the steps necessary to assure us that we would not be faced with an insurmountable task when ratification did take place. The current approach is a recipe for a constitutional crisis, because it promises to place us in a position where we will not be able to do what the Constitution commands us to do.

One possible way out of this dilemma is to attack the deficit problem on the installment plan. Instead of trying to deal with the insoluble problem of how to eliminate a $200 billion deficit in a year or two, we could propose a balanced budget amendment that includes a specific phase-out period to eliminate the deficit. Five years would probably be a reasonable time. A section could be added that could specify that once the amendment was ratified by the necessary three-fourths of the states, we could take the existing deficit at the time of ratification, divide it by five, and then proceed to take a twenty percent bite out of that deficit each year for five years until it was gone.

If such a balanced budget amendment were in place today, the amount of deficit reduction we would be looking at for the next fiscal year would be about $40 billion. That is about four percent of total federal spending. A deficit reduction of that order of magnitude can be achieved without damaging our national security, dismantling our social welfare programs, or sharply raising our taxes.

And we would still accomplish the main purpose of the balanced budget amendment -- the certainty that the federal deficit would be eliminated on a fixed schedule. Installment buying is an old American tradition. Using that technique to gradually, but surely, phase out the deficit over a period of years would give the country an annual deficit reduction task that could be done, and we would still gain the enormous economic benefits that would spring from increased business confidence. And beyond that we would achieve something that is both precious and vital to the functioning of a free economy -- the prople's confidence that a sound fiscal policy will be followed in the future.

If we can take control of our economic destiny and wipe out the deficit that is undermining our economy, we will leave a legacy to our children that may be the finest inheritance we could ever leave them -- an economic prosperity that will enable us to build the defense necessary to keep us free, that will allow us to care decently for those who cannot care for themselves, and that will provide steadily increasing real incomes for those who work.

The New York Times
NEW YORK, FRIDAY, AUGUST 30, 1985

The Budget Amendment — Not So Crazy After All

By Martin Anderson

PALO ALTO, Calif. — Despite the fact that many people think a balanced budget amendment is crazy, there is a way to make it a practical solution to the deficit crisis. It will not require financial magic, nor will it be a futile exercise.

The solution lies in a balanced budget amendment that phases out the Federal deficit — steadily and surely — over a five-year period.

Ridding ourselves of a $175 billion deficit all at once would weaken our national defenses, ravage our social welfare programs, and raise tax rates to ruinous levels. Congress simply will not do it.

But reducing the deficit by $35 billion a year is an entirely different matter. Congress can do that. And if an amendment to the Constitution requires Congress to do something that is not impossible, but just difficult, then Congress will give it the same respect and deference it gives to the amendment that guarantees us freedom of the press, speech and religion.

This is not fantasyland. And the benefits could be huge. Assume that you and everyone else in this country, including our business executives and financiers, could go to bed tonight convinced that tomorrow morning the Federal Government would start walking the road of fiscal responsibility. People could believe that the deficit would gradually be reduced from $175 billion a year to nothing in five years and then, starting in 1990, the Federal budget would stay balanced year after year.

What would you do? What would business executives do? What would happen to the economy? What would the economy look like in 1990 if we continued to balance our budget?

If you are like other people I have talked to, your reaction is extremely positive. You would be confident that inflation would stay low and maybe even go to zero, that interest rates would fall, and that unemployment would be reduced. Your confidence in our economy's future would be greatly strengthened. You would begin thinking about expansion and making long-term investments. If everyone believed as you did, the effect on the economy could be dramatic. No one knows just how good the results would be. But it is almost certain that we would see real economic growth, higher than most of us now think possible, for the rest of this century.

But the only way to achieve this happy state is through a constitutional amendment that forces Congress and the executive branch to do the right thing in spite of themselves. The alternatives court disaster.

To allow these deficits to stretch out in front of us as far as the eye can see guarantees harsh consequences. We have tried controlling Federal expenditures through our normal political institutions, and the power of the interest groups has made a mockery of the effort. We are trying to simplify the tax system, but this will not eliminate the deficit. A balanced budget amendment is not only the best alternative, it is the only one left.

I suspect the main reason we have not yet imposed this restraint on ourselves is that we secretly fear the cure may be worse than the disease. And there will indeed be serious consequences if we try to eliminate the deficit in one year.

But the important thing is to assure ourselves that it will be eliminated over time. If the amendment provided for a gradual, manageable but inexorable reduction, we could do the job and still enjoy the economic benefits that would flow from increased business confidence.

This means attacking the deficit on the installment plan. Five years seems a reasonable period to bring it under control. Once the amendment was ratified by the necessary three-fourths of the states, we could take the existing deficit at the time of ratification, divide it by five, and proceed to take a 20 percent bite each year until it was gone.

With a constitutional amendment, Congress can help us gradually rid the nation of this burden

If such an amendment were in place today, we would be confronting a reduction next year of $35 billion. That is less than 4 percent of total Federal spending. We can manage a reduction of that size without damaging our national security or our social welfare programs or sharply raising taxes. And we would achieve something that is vital to the functioning of a free economy — confidence.

Attack the budget deficit on a five-year installment plan

The last amendment to our Constitution, voting rights for 18-year-olds, took just three months to ratify. The amendment before that, succession of the Vice President to the Presidency, took 17 months. And the one before that, on electors for Washington D.C., took just 10 months.

A balanced budget amendment (to which a five-year phase-in provision could be added) is now pending in the Senate. Thirty-two states have passed resolutions calling for a constitutional convention to accomplish this end. National public-opinion polls show overwhelming support. If President Reagan mounts a campaign this fall for something he has strongly supported his entire political life, we could witness a profound revolution in our national economic policy as early as 1986.

If we do that, we will leave to our children a precious legacy — an economic prosperity that will enable us to build the defense necessary to keep us free, allow us to care decently for those who are not able to care for themselves, and provide steadily increasing real incomes to all who work.

If we don't, there just may be a special spot in hell reserved for those who did nothing while the greatest economy in the history of the world was wrecked by irresponsible economic policies. ☐

Martin Anderson is a member of the President's Economic Policy Advisory Board and a senior fellow at the Hoover Institution at Stanford University. He was assistant to the President for policy development in the Reagan Administration's first term.

The Washington Times

Washington, D.C.

NOVEMBER 29, 1984

Time for Reagan to play his three aces

MARTIN ANDERSON

The economic policy agenda for Reagan's second term — what might be called Phase II of Reaganomics — is a radical and far-reaching one with profound implications for the future of our economy.

Two important elements of this strategy have been discussed widely: (1) the possibility of a modified flat tax which, if adopted, would go a long way toward making our tax system fairer and simpler, and (2) further attempts to limit and control the growth of all federal spending, especially social welfare programs.

Unfortunately both of these have some very, very high political hurdles to leap. The chance of either getting through a Congress that now has a slightly more liberal Senate and a House of Representatives with only 14 or 15 more Republican members is bleak. The power of economic interest groups is still very much alive and well in Washington, D.C.

But President Reagan has three aces up his sleeve. Perhaps the most important part of the economic strategy he unveiled during the long presidential campaign are three constitutional amendments that would totally transform the way the federal government conducts its economic business.

These amendments would (1) force the federal government to balance the budget, (2) limit federal spending to a fixed percentage of the country's national income, and (3) give the president line-item veto authority over the budget.

Such an economic bill of rights would revolutionize the economic policy of the United States, regardless of what party was in power. It would go a long way toward guaranteeing fiscal responsibility in future years, thereby setting in motion powerful economic forces likely to produce the longest sustained period of real economic growth this country has ever seen.

Curiously, this precise, far reaching economic policy agenda seems to be one of the best kept secrets in Washington. With a few notable exceptions, its existence is scarcely mentioned in the media or by policymakers in the Reagan administration.

President Reagan certainly has not been shy about it. In his State of the Union speech in January, he clearly spelled out the long-term economic policy changes he intended to make, explicitly naming the balanced budget amendment, structural reforms to curb spending, and a line-item veto.

In August, the Republican platform specifically endorsed all three of these fundamental policy changes and even declared (in a rather bold move for Republicans), "If Congress fails to act on this issue, a constitutional convention should be convened to address only this issue in order to bring deficit spending under control."

Driving home his support of these economic policy amendments, President Reagan vowed in his acceptance speech at the Dallas convention, "We will continue to *fight* for that amendment mandating that government spend no more than government takes in, and for the right of a president to veto items in appropriations bills without having to veto the entire bill." A few days later, in a nationwide Saturday morning radio broadcast he said it all again. And again and again in campaign speeches and statements.

Maybe he was trying to tell us something.

Perhaps the reason this radical economic policy strategy has been treated with such benign neglect is that very few people seem to believe it could ever really happen. Well, it could. It could happen very easily.

These economic policy amendments have tremendous public support. National opinion polls have for some time shown that 70 to 80 percent of Americans are for them, especially for the balanced budget amendment.

A lot of support comes from Democrats and Independents as well as from Republicans, and that public pressure is being felt in the Congress. Not many remember that in 1982 a sophisticated constitutional amendment, embracing both the balanced budget and a limit on federal spending, passed the Senate with the necessary two-thirds vote and narrowly failed in the House, receiving just less than 60 percent.

Thirty-two states have passed a resolution calling for a constitutional convention to propose a balanced budget amendment. Only two more states are necessary to force Congress to act. As the 34th state gets closer, Congress will almost surely preempt the idea and propose an amendment itself, if for no other reason than to avoid the humiliation of having a constitutional convention jammed down its collective throat.

One of the fears some people seem to have about an honest-to-God requirement that our elected officials balance the budget is that wiping out a $175 billion deficit in one year might involve either draconian cuts in defense and social welfare spending or ruinous increases in tax rates. These fears are unfounded. If a balanced budget amendment were added to the Constitution, there would have to be a phase-in period. Five years would probably be a reasonable time.

Once the amendments were ratified by the necessary three-fourths of the states, we could take the existing deficit, divide it by five, and proceed to take a 20 percent bite out of it each year for the next five years. For example, if the balanced budget amendment were in place today, the amount of deficit reduction we would be looking at next year would be $35 billion. That is about 4 percent of total spending. A deficit reduction of that magnitude could be managed without damaging our national defenses, ravaging our social programs, or raising our tax rates.

If the president is able to accomplish this critical part of Phase II of Reaganomics, it should generate a sharp increase in business confidence — not only in the United States, but all over the world. The state of business confidence doesn't lend itself to econometric forecasting models, but as John Maynard Keynes emphasized in *The General Theory* "economic prosperity is excessively dependent on a political and social atmosphere which is congenial to the average businessman."

Even at the beginning of the phase-down of the deficit, just knowing that it really was going to happen would have a powerful, positive effect on business confidence, an effect that would be translated quickly into lower interest rates, more jobs, less inflation, and higher real economic growth.

Many Democrats and a lot of political pundits have tried to pretend that 1984 was an "issueless" presidential campaign. They may wish it had been, but the record is clear and indisputable. President Reagan laid out a bold economic strategy for the whole nation to see, and it certainly was one of the reasons he received more electoral votes than any presidential candidate in American history.

All his life Ronald Reagan has been underestimated, and he probably has been once again. If he now moves forcefully to claim his mandate and presses successfully for these three constitutional amendments, then, as he said repeatedly in the closing days of the campaign: "You ain't seen nothing yet!"

Martin Anderson is a member of the President's Economic Policy Advisory Board and a senior fellow at the Hoover Institution at Stanford University. He was assistant to the president for policy development in 1981-82.

Representative WYLIE. Thank you very much, Mr. Anderson.

Now, Mr. Lee, would you summarize your statement?

STATEMENT OF DWIGHT R. LEE, PROFESSOR OF ECONOMICS AND HOLDER OF THE RAMSEY CHAIR IN PRIVATE ENTERPRISE, UNIVERSITY OF GEORGIA, ATHENS, GA

Mr. LEE. Thank you, Mr. Chairman. I also appreciate the opportunity to present my views on the proposed balanced budget amendment.

It may appear that I'm getting off the track by talking a little bit about pollution, but bear with me because I am going to speak to the subject.

Senator D'AMATO. Do you mean the noise pollution that comes from the Congress?

Mr. LEE. Pollution in general. I'll make some connections here.

I want to point out the connection I see between excessive environmental pollution and what I would refer to as excessive fiscal pollution or chronic budget deficits and use this connection to show how empty the arguments against the balanced budget amendment are.

As we do move closer to the enactment of a balanced budget amendment, those whose interests are tied to ever-increasing government spending are justifiably terrified by the possibility that the amendment will be ratified and they've presented some arguments against the balanced budget amendment. Let me summarize those arguments.

They go something like the following: At best, the amendment would be ineffective, it wouldn't work. At worst, the amendment would reduce the flexibility the Government needs to respond to changing economic circumstances. And finally, if the public really wants the Government to balance the budget, our elected representatives already have the power to do so. So why clutter up the Constitution with a balanced budget amendment?

Well, if anyone likes that argument, I would ask them to consider the following argument regarding a very similar situation. Consider the following argument against Government restrictions on pollution: These restrictions are ineffective, people do violate and get around environmental pollution restrictions. At worst, these restrictions reduce entrepreneurial flexibility needed to keep the U.S. economy competitive in an increasingly competitive world market. And anyway, the power already exists to reduce pollution without Government controls, if that's what the American public wants. If people want less pollution they can simply reduce their own polluting activities or stop buying from businesses that are environmentally irresponsible.

These arguments are identical to the ones against the balanced budget amendment, and they're wrong for exactly the same reasons.

The problem here is that both sets of arguments assume that people will see it in their private advantage to refrain from activities that are harmful to their collective interests, and this assumption is wrong. It is in the private interest of each of us to engage in polluting activities and it's in the private interest of each of us to demand more Government spending for our programs even though collectively we would all be better off with less of both.

Excessive pollution results because of private advantage each of us realizes from our own polluting activities is paid for by a defenseless public. Of course, each of us suffers from the pollution of others and we would be willing to reduce our pollution if others would do the same, but each of us know that the others won't do the same, so there is no advantage in reducing our own polluting. Without any restrictions, we would be in a polluting free-for-all with penalties imposed on the environmentally responsible and rewards passed out to the environmentally irresponsible.

Excessive fiscal pollution or budget deficits result for much the same reason because of the private advantage each of us receives from our Government programs, paid for by the defenseless taxpayer. Of course, each of us also suffers in that we have to pay for the programs of others and we would be willing to reduce our special interest demands if others would do the same, but we know that others won't do the same and so the advantage is in continuing with our demands. And we're in a spending free-for-all with penalties imposed on the fiscally responsible and rewards for the fiscally irresponsible.

Now it's widely and correctly recognized that restraints on market discretion is needed if we are to control excessive environmental pollution and I think it's time that we all recognize that restrictions on political discretion is needed if we are to control excessive fiscal pollution in the form of chronic budget deficits.

The critics of the balanced budget amendment are certainly correct when they argue that there would be enforcement problems. There are enforcement problems with environmental restrictions as well, but no one argues that they should be discarded for this reason. The critics are also right when they argue that a balanced budget amendment would reduce the fiscal flexibility of Government. Of course, it would. That's the entire objective of the amendment. For the same reason that the business community can't be trusted with environmental freedom the Congress can't be trusted with fiscal freedom.

Government restraints on the pollution of business provide the American people, if you will, as a means of entering into a mutually beneficial contract in which each of us agrees to reduce our own polluting activities in return for reduction in the pollution of others. The constitutional amendment which would require the Government to balance the budget provides the American people a very similar opportunity. That is, a means of entering into a mutually beneficial contract with each other in which each of us agrees to reduce our own special interest demands in exchange for reductions in the special interest demands of others.

It would be nice if we didn't need pollution restrictions on business. It would be nice if we didn't need a balanced budget amendment constraining Congress. But we need both of them, and the sooner we get the balanced budget amendment, the better it will be for the country.

Thank you for the opportunity to express these views.

[The prepared statement of Mr. Lee follows:]

PREPARED STATEMENT OF DWIGHT R. LEE

FISCAL POLLUTION AND THE NEED FOR A BALANCED BUDGET AMENDMENT

There is widespread agreement that the federal budget is out of control. Since 1960 the federal budget has been balanced only once, and that was when it recorded a tiny surplus in 1969. Not only are we experiencing chronic federal deficits, but these deficits have been escalating at an alarming rate. Over the decade of the 1960s the average federal budget deficit was $6.1 billion per year. Over the 5 year period, 1971-75, the average federal budget deficit was $22.2 billion per year. Over the next 5 year period, 1976-80, the average federal budget deficit was $52.1 billion. The first half of the 1980s has seen this escalation continue, with the average annual deficit over the fiscal years 1981-85 equal to $145.6 billion (the deficits for 1984 and 1985 are official estimates.)

It is obvious that we cannot continue along this path of fiscal irresponsibility without unfortunate economic consequences. Either we will control the deficits through responsible fiscal restraint or a mushrooming interest burden will force the federal government to take action which will result in rapid inflation, economic stagnation, and ultimately fiscal default. It is the recognition of these fiscal alternatives which has prompted a drive to enact a balanced budget amendment to the U.S. Constitution. Unless the Congress passes a balanced budget amendment of its own, and sends it out to the states for ratification, the states soon will force the Congress to call a constitutional convention for the purpose of drafting a balanced budget amendment.

The possibility that the spending proclivities of the federal government may be constitutionally restricted is terrifying to those whose interests are tied to ever larger government programs and transfers. These interests have become increasingly vocal in their opposition to a balanced budget amendment. Their arguments can be summarized as follows: First, at best a balanced budget amendment would be ineffective since there is no way to guarantee that revenues and expenditures will always match up on an annual basis. Second, at worst the balance budget amendment would reduce the fiscal flexibility of the federal government, thereby making it more difficult to respond appropriately to changing economic circumstances. Furthermore, if the public really wants the government to balance its budget our elected representatives have to power to respond to this desire. It is silly then to clutter up our Constitution with a complicated balanced budget amendment.

At first glance these arguments appear reasonable. It is certainly true that no amendment to the Constitution can insure that the budget will ever be perfectly balanced. It is impossible to predict with precision either revenues or expenditures over a specified interval. Therefore, surpluses and deficits will occur no matter how dedicated the effort to balance the budget. While only the most naive can still believe that the federal government can successfully fine tune the economy with adroit fiscal policy, there are circumstances in which budgetary flexibiliy can be justified.[1] Also, it is true that Congress has the control over taxing and spending needed to eliminate the chronic deficits if it chooses to do so. So why should we clutter up the Constitution with a balanced budget amendment?

The best way to explain the need for a balanced budget amendment is by applying these "plausible" arguments to government restrictions on pollution, and then recognizing the similarity between the problem of excessive environmental pollution and the problem of excessive budget deficits. Consider the following argument: While it may be true that we have burdened our environment with increasing quantities of pollution, there is no need to have the government impose a host of complicated restrictions on polluting activities. At best such restrictions are ineffective and at worse they reduce the flexibility needed by private sector enterprises to remain competitive in world markets. Furthermore, we already have the ability to reduce pollution without government restrictions if that is what the public wants. If people want less polluting all they have to do is reduce their pollutiong activities and refuse to purchase goods produced by companies that are environmentally irresponsible.

These arguments are identical to those against the balanced budget amendment, and they are wrong for the same fundamental reason. The problem with both arguments is that they assume people will see private advantage in refraining from activities which are harmful to their collective interests. People will continue to pollute and to buy from companies which pollute, even though everyone would be better off with less pollution. While each individual would like to see others reduce their polluting activities, the private sacrifice from reducing their own polluting would far exceed the private benefit from doing so. For exactly the same reason people will continue to demand more spending on their special interest programs, even though everyone would be better off with less spending on all special interest programs.

In the absence of environmental restraints, excessive pollution results because the private advantage each of us realizes from polluting are paid for almost entirely by a defenseless public. Of course, each of us suffers from the pollution of others, and most of us would be willing to reduce our own pollution if others would do the same. But we all recognize that as long as we continue to be assaulted by the pollution of others there is no advantage in reducing our individual demands on the environment. In such an uncontrolled setting we would be in a polluting free-for-all with penalties for the environmentally responsible and rewards for the environmentally irresponsible.

In the absence of fiscal restraints, excessive government spending results because the private advantage each of us realizes from spending on our government programs are paid for almost entirely by the defenseless taxpayers. Of course, each of us suffers from having to pay for the programs of others, and most of us would be willing to reduce our special interest demands if others would do the same. But we all recognize that as long as we continue to pay for the programs of others there is no advantage in reducing our individual demands on the government treasury. In this uncontrolled setting we are in a spending free-for-all with penalties for the fiscally responsible and rewards for the fiscally irresponsible.

It takes more than spending to generate budget deficits, of course. It takes spending in excess of taxes. So is the problem too much government spending or not enough government revenue? In drawing a parallel between excessive pollution and excessive deficits, it does not make any difference. Even if everyone thought that the government should raise more tax revenue, few would be willing to unilaterally sacrifice their tax loopholes. Individuals will continue to fight for special tax preferences for the same reason they pollute. They receive the benefits while others bear the costs.

If all it took to balance the federal budget was for the American public to want it balanced, it would have been balanced long ago. The vast majority of the American public has long wanted the federal government to balance its budget. In an ideal world in which broad public preferences were transmitted effectively through political institutions, there would be no need for a balanced budget amendment. However, we do not live in such a world. Political institutions, even democratic political institutions, are easily exploited by the organized few to gain special interest benefits at the expense of the unorganized many. Our founding fathers were fully aware of this elementary fact, and the restrictions on political discretion built into the U.S. Constitution have until recently served our country well by making it more profitable to exploit market opportunities for wealth creation than political opportunities for wealth transfer.

Although not explicitly in the U.S. Constitution, there existed an unwritten understanding for over 150 years of our Nation's history that the federal government was not to engage in deficit financing except during periods of national emergency. When deficits did occur, budget surpluses were to begin paying off the resulting national debt as soon as the emergency was over. This fiscal discipline has obviously broken down as the understanding of our founders fathers has been replaced in modern times with the naive notion that political discretion is a force for social progress. It is the essential purpose of a balanced budget amendment to impose on our political decision-makers the fiscal discipline they are now incapable of imposing on themselves.

The critics of a balanced budget amendment are correct when they argue that politicians would still find ways to run deficits. But it is also true that polluters are able to find ways around the restrictions on polluting. This is certainly no reason to abandon these restrictions. Nothing is enforced perfectly. The critics of a balanced budget amendment are also correct when they fear that it would reduce fiscal flexibility. Of course it would, and that is the very reason a balanced budget amendment is so desperately needed.

It is widely recognized that restraints on market behavior are needed if we are to control excessive environmental pollution. It is now time to recognize that restraints on political behavior are needed if we are to control excessive fiscal pollution that takes the form of chronic and escalating budget deficits.

Footnotes

1. This point is, of course, recognized by everyone and all versions of the balanced budget amendment contain provisions for deficits in emergencies.

Representative WYLIE. Thank you very much, Mr. Lee, for that excellent statement and those excellent ideas.

Now we will hear from Mr. Stubblebine from Claremont McKenna College. What is your position with Claremont McKenna College?

Mr. STUBBLEBINE. I am the Von Tobel Professor of Political Economy and a research professor at the Center for the Study of Law Structures.

Representative WYLIE. All right. Mr. Stubblebine, your prepared statement will be incorporated in the record in its entirety and you may proceed to summarize in your own way.

STATEMENT OF WM. CRAIG STUBBLEBINE, VON TOBEL PROFESSOR OF POLITICAL ECONOMY, CLAREMONT McKENNA COLLEGE AND CLAREMONT GRADUATE SCHOOL, CLAREMONT, CA

Mr. STUBBLEBINE. Thank you.

The Senate Judiciary Committee has approved Senate Joint Resolution 13 for consideration by the Senate. This tax limitation balanced budget amendment effectively would reintroduce four fiscal norms into the Constitution.

First, planned Federal outlays should be no greater than planned Federal revenues. That is, Congress should not plan a deficit.

Second, planned Federal revenues should grow no more rapidly than the underlying economy. That is, the burden of Federal taxation should not grow from year to year.

Third, actual Federal outlays should be no greater than outlays planned by the Congress.

Fourth, implicit in the first three, actual Federal outlays should not grow more rapidly than the underlying economy. That is, the burden of Federal spending should not grow from year to year.

While reintroducing the fiscal norms which have been the sine qua non of fiscal responsibility throughout much of the Nation's history, the proposed amendment nevertheless would provide Congress with flexibility to accommodate change. Planned Federal revenues could be allowed to grow more rapidly than the economy, but only if a constitutional majority in the Congress agreed each year on the requisite tax law. Congress could plan a deficit, but only if a constitutional three-fifths majority in the Congress agreed each year that circumstances warranted violation of the no-deficit norm. The burden of Federal spending could grow, but only if a congressional consensus existed annually either to violate the constitutional norm of balance between taxing and spending or to violate the constitutional norm of limited taxation. And, of course, the waiver provision provides Congress with full authority to respond with increased taxing, increased spending and/or substantial deficits in time of war.

The higher voting requirements and the necessity of reexamining the taxing, spending and deficit issues each year mean that a continuing consensus in Congress would have to be maintained to violate these constitutional norms over time. Whenever that consensus broke down, the norms in the proposed amendment automatically would return the Federal Government to fiscal responsibility. Since violation of these norms would require Members of Congress to be accountable individually, the consensus also would have to be maintained in the larger body politic.

By contrast, present constitutional law and congressional practice permit laws providing for increasingly burdensome taxing, spending, and deficits to be adopted in perpetuity. To halt their growth, a consensus must emerge pressuring Congress to enact new law. The difficulties inherent in reasserting fiscal responsibility are illustrated dramatically by the current budgetary turmoil in Congress.

On October 3, the Los Angeles Times reported:

> House Democrats Still Differ on Tax Overhaul: Emerge From Closed-Door Session Divided on Whether To Cut Rates or Reduce Federal Deficit.

A day later, the Times reported:

> Congress Looks at Sweeping Budget Cuts: Senators Unveil Proposals To Eliminate Deficit Within Six Years.

That latter article noted:

> Like the statutory ceiling on the national debt—itself created to restrain spending—the budget curbs now under consideration could be modified or suspended in future years by Congress. Indeed, a key element in their political appeal appeared to be the fact that they would allow lawmakers to respond to widespread public concern about the deficit without taking immediate action against specific spending programs.

In his invitation to testify, Senator Abdnor noted:

> In recent years it has become increasingly clear that the source of many of our budgetary problems is institutional. The incentive structure facing many Members of Congress chronically results in spending commitments in excess of tax revenues. This hearing will examine the value of a constitutional amendment mandating a balanced budget as a way to remedy this and related problems.

Many observers of legislative taxing and spending have come to a "working hypothesis" which may be summarized as follows:

As focal points in the budget process, legislators are under constant pressure to provide more of each government service. Individuals constantly press for their representatives' favorable support and votes on those extensions of government yielding special benefit. Failure of a representative to acquiesce promises to provoke votes against him when he faces reelection. At the same time, he is under pressure to reduce the total burden of government his constituents bear as taxpayers. Reelection activity here, however, is likely to be less well directed. Given the generality of taxes, what a citizen must pay is unrelated to the Government services for which he and his family qualify. He has little interest in determining how much of his personal tax burden supports those services of particular interest and benefit to him and how much supports services demanded by others. This suggests that, under current constitutional rules, individual legislators will opt for sympathizing with the general taxpayer concern while emphasizing the special interest services provided his constituency.

In consequence, the burden of taxes and spending grows over time. The burden of spending grows more rapidly than the burden of taxes and increasingly burdensome deficits result from the legislative process.

In the best of all possible worlds, constitutional reform would eliminate pressures on Members of Congress to tax too much, but not enough to meet spending. Clearly, the proposed amendment does not do so. Neither am I aware of any proposal offering viable prospects for achieving this laudatory objective. Rather, as noted above, the amendment seeks to restrain these pressures through the reestablishment into the Constitution of fiscal norms which served the Nation well throughout much of its history.

The Constitution is a collection of definitions, procedures, assignment of general duties, and general prohibitions to legislative action. A constitutional provision is appropriate whenever the body politic perceives that the outcomes of the legislative decisionmaking process in the absence of that provision largely fail or would fail to comport with the outcomes desired by that body politic.

Justification for the amendment lies in the Federal fiscal irresponsibility burdening this nation at least since the end of World War II. The history of increasingly onerous spending burdens, of budgets ever more in deficit, inflation and high interest rates, declining rates of savings and investment, and declining rates of real economic growth is too well known to bear repeating here. Against this history, the American people have two choices: to permit, with occasional interruption, continuation of the deterioration of the last 40 years or to begin repair of the constitutional defects which have become manifest. The proposed amendment would be a reasonable and constructive response.

The balance of my prepared statement illuminates the proposed amendment as it deals with several criticisms which have been advanced against it.

Let me thank you for this opportunity to appear before you today at a time when an overwhelming majority of the American people concur that an amendment to the Constitution to promote Federal fiscal responsibility is of prime importance.

[The prepared statement of Mr. Stubblebine follows:]

PREPARED STATEMENT OF WM. CRAIG STUBBLEBINE

I am Wm. Craig Stubblebine, Von Tobel Professor of Political Economy at Claremont McKenna College and Claremont Graduate School, and, as well, a research professor at the Center for the Study of Law Structures at Claremont McKenna College, Claremont, California. Under a grant from the Tax Limitation Research Foundation, the Center has maintained a continuing research effort in constitutional tax and spending limitations at all levels of government. With many others, I also am a founder of the National Tax Limitation Committee. My own research and consulting with respect to constitutional limitations dates from 1972-1973, when I served as a consultant to then Governor Reagan's Tax Reduction Task Force.

The Senate Judiciary Committee has approved S.J.R. 13 for consideration by the Senate. The text of that resolution provides that the Congress shall adopt a "statement" for each fiscal year in which total outlays are no greater than total receipts, unless three-fifths of both Houses provide for a specific excess of outlays over receipts; it also directs that actual outlays during any fiscal year not exceed statement outlays (Sec. 1). It provides that statement receipts not increase at a faster rate than the nation's "national income", unless a bill be enacted providing for additional receipts (Sec. 2). It also provides that Congress may waive these provisions during periods of declared war (Sec. 3). Finally, it stipulates that the amendment becomes effective for the second fiscal year after ratification by the States (Sec. 4).

This amendment effectively would (re-)introduce four fiscal norms into the Constitution. First, planned federal outlays should be no greater than planned federal revenues; that is, Congress should not plan a deficit. Second, planned revenues should grow no more rapidly than the underlying economy; that is, the burden of federal taxation should not grow from year to year. Third, actual federal outlays should be no greater than planned outlays; that is, Congress should not spend more than it planned to spend. Fourth, implicit in the first three, actual federal outlays should not grow more rapidly than the underlying economy; that is, the burden of federal spending should not grow from year to year.

While reintroducing the fiscal norms which have been the sine qua non of fiscal responsibility throughout the nation's history, the proposed amendment nevertheless would provide Congress with flexibility to accomodate change. Planned federal revenues could be allowed to grow more rapidly than the economy, but only if a constitutional majority in the Congress agreed each year on the requisite tax law. Congress could plan a deficit, but only if a constitutional three-fifths majority in the Congress agreed each year that circumstances warranted violation of the no-deficit norm. The burden of federal spending could grow, but only if a Congressional consensus existed annually either to violate the constitutional norm of balance between taxing and spending or to violate the constitutional norm of limited taxation. And, of course, the waiver provision provides Congress with full authority to respond with increased taxing, increased spending, and substantial deficits in time of war.

The higher voting requirements and the necessity of reexamining the taxing, spending, and deficit issues each year mean that a continuing consensus within Congress would have to be maintained to violate these constitutional norms over time. Whenever that consensus broke down, the norms in the proposed amendment automatically would return the Federal government to fiscal responsibility. Since violation of these norms would require members of Congress to be accountable individually to their constituents, a consenus also would have to be maintained in the larger body politic.

By contrast, present constitutional law and congressional practice permit laws providing for increasingly burdensome taxing, spending, and deficits to be adopted in perpetuity. To halt their growth, a consensus must emerge pressuring Congress to enact new law. The difficulties inherent in reasserting fiscal responsibility are illustrated dramatically by the current budgetary turmoil in Congress.

On 3 October, the Los Angeles Times reported that "House Democrats Still Differ on Tax Overhaul: emerge from closed-door session divided on whether to cut rates or reduce federal deficit". A day later, the Times reported that "Congress Looks at Sweeping Budget Cuts: Senators unveil proposals to eliminate deficit within six years". The latter article noted that

> like the statutory ceiling on the national debt -- itself created to restrain spending -- the budget curbs now under consideration could be modified or suspended in future years by Congress. Indeed, a key element in their political appeal appeared to be the fact that they would allow lawmakers to respond to widespread public concern about the deficit without taking immediate action against specific spending programs (p. 24).

It would seem obvious that tax reduction in face of $200 billion dollar deficits requires "taking immediate action against specific spending programs".

Some appreciation for the proposed amendment may be gained by reviewing the criticisms advanced against it to date. These may be classified into one or more of three types. The first would suggest that the Congress has displayed fiscal responsibility over the years, that the growth of the Federal sector merely has been an appropriate response to the legitimate demands of the body politic, and that the current deficits are appropriate to the needs of the economy for greater aggregate demand. Whatever one might seek to make of this apology for the growing Federal sector and the now annual deficits, the vast majority of Americans express their dissatisfaction in every poll: aggregate federal taxing, spending, and deficits are seen as excessive. Moreover, when provided an opportunity, voters enact even more restrictive limitations on their state and local governments.

The second type, while decrying the expansion of the Federal government, criticizes the proposed amendment for not dictating a retrenchment of federal taxing and spending and an end to (inflationary) deficits. Such criticisms fail to appreciate that the Constitution establishes decisionmaking processes; it is a collection of definitions, procedures, assignments of general duties, and general prohibitions to legislative action. It does not dictate results. In this regard, the proposed amendment is fully consistent with the various provisions of the existing Constitution. Such criticisms also fail to note that the proposed amendment is compatible with the emergence of a new consensus for a smaller Federal sector: each fiscally conservative Congress would establish a smaller federal share of the economy, a share that would persist until an extraordinary consensus appeared to return to a larger share. Furthermore, the amendment has been drafted so as to provide Congress with an incentive to avoid inflation through the simple expedient of linking the current fiscal year statement to the growth of national income in the prior calendar year. Thus, inflation in the prior year would mean less real federal taxing and spending during the succeeding fiscal year.

The third type of criticism, while acknowledging the irresponsibility of the current fiscal situation, faults the notion of amending the Constitution and/or faults the amendment as proposed. There are those, for example, who would argue that the only appropriate response to the present fiscal irresponsibility is election of "responsible" representatives. This argument fails to appreciate that the Congress is now, and has been, populated largely by well-intentioned, responsible individuals. Many of these members of Congress have come to realize that they are caught up in a process leading them to join in approving higher taxes, higher spending, and larger deficits. They, at least, have come to understand that the history of fiscal irresponsibility is, in large part, the consequence of a defective institutional setting.

There are also those who believe that the amendment represents an unwarranted intrusion into the fiscal powers of Congress. Yet the fundamental purpose of a constitution is to restrain legislative majorities. The Constitution, both in its original and in its present casting, contains various "fiscal" provisions. Moreover, adherence to the amendment's norms would be conducive to orderly and constructive conduct of the nation's fiscal responsibilities. Conditioning taxing and spending decisions to an adopted "statement" -- itself linked to prior years -- provides a far more certain basis for budgeting than the procedures characterizing the present situation.

The "unwarranted intrusion" criticism can be a companion to the argument that reform should look to statutory changes, especially changes in the 1974 Budget Act. This approach fails to reckon with the (constitutional) rule that what one Congress can enact into law, a subsequent Congress can repeal, either explicitly or implicitly. The 95th Congress adopted legislation requiring a balanced budget which subsequent Congresses have repealed "by implication" each time they adopted unbalanced budgets. Statutes and "rules of Congress" cannot cure fundamental defects in the Constitution. Adoption of the proposed amendment, precisely because of its constitutional stature, seems likely to motivate Congress to adopt those changes in its practices that proponents of statuatory reform believe would be desirable.

Specific aspects of the proposed amendment have elicited criticism. Certain terms used in the amendment -- such as "receipts", "outlays", and "national income" -- are challenged as so lacking in clarity that the Congress would ride roughshod over their intended application. Against this claim weighs the amendment's "legislative history" which makes clear that considerable latitude in application nevertheless is consistent with a restoration of fiscal responsibility. More important, such criticism fails to appreciate that each and every provision of the current Constitution would have been subject to the same criticism prior to its adoption. Of necessity, constitutions are mere collections of words until application gives them life. By implication, this criticism also would suggest that members of Congress cannot be expected to respond constructively to their constitutional obligations. Yet, were this the case, the Constitution long since would have become a dead letter.

The extraordinary majority provisions of the amendment have been criticized on the ground that they could lead to "minority rule". However, the Constitution requires such majorities for changes deemed especially significant. Amending the Constitution itself, overriding a Presidential veto, expelling a member of Congress, consenting to a treaty, and convicting an impeached President all are examples currently in the Constitution. Violation of the amendment's fiscal norms certainly should be seen as "especially significant" and, hence appropriate to the test of super-majority voting rules.

The amendment also has been criticized on the grounds that its application would entice Congress to respond perversely. It is suggested that, for example, restraining the growth of federal taxing and spending would pressure Congress to rely more heavily on regulation of the private sector: In place of medicare, employers could be required to contribute to a federally administered insurance fund for the medically indigent. However, such regulation inevitably reduces the real growth of the underlying economy. Under the amendment, slower real growth would be translated into slower real federal spending. Thus, the amendment, if anything, is likely to cause the Congress to review existing regulations, abandoning those which unduly retard private sector real growth.

Critics also have suggested that the amendment would be perversely procyclical, requiring reductions in federal spending during recessions when revenues decline and permitting increased spending during boom years when revenues race ahead. Such criticism fails to appreciate the effect of linking the current fiscal year to the growth of the economy during the previous calendar year. The resulting twenty-one months lag between the previous mid-calendar year and the current mid-fiscal year imparts an automatic countercyclical quality to the proposed amendment. Moreover, one the strongest attributes of the proposed amendment is its ability to accomodate countercyclical fiscal policies: surpluses during robust years and deficits during recessionary years. An economy which proves to be more robust than expected at the outset of a fiscal year will generate actual receipts in excess of statement receipts and actual outlays; an economy which proves to be less robust will cause actual receipts to be less than statement receipts and actual outlays.

Still another criticism is that the amendment would be impractical to administer. Congress cannot guarantee that actual revenues will be equal to statement revenues. Pursuant to any given revenue law, realized revenues will be dependent upon a variety of factors beyond the effective control of any legislature in a free society. The amendment eschews mandating equality between actual revenues and statement receipts for the simple reason that such a mandate would face both Congress and the Administration with an impossible task. By contrast, outlays are subject to full monitoring. Any given dollar is expended pursuant to a conscious, controllable decision of the Congress and the Administration. At a minimum, ensuring that actual spending does not exceed statement spending can be realized by the simple expedient of selecting programs and/or of establishing eligibility criteria such that expected spending is well within statement spending. The difference then could be appropriated as a contingency fund from which the administration would make up any unexpected shortfall.

Moreover, various states, including California, have administered the far more strict tax limitation and balanced budget provisions of their constitutions in ways both meaningful and constructive -- though not without occasional legislative turmoil. States provide contingency funds as a normal part of their budgeting procedures precisely to avoid unanticipated deficits. As implausible as it may seem to the Washington establishment, Federal compliance with the proposed amendment would be no more onerous.

Finally, criticism has come from those who believe that some other amendment would be more effective -- such as one giving the President an "item veto". However, there is no evidence that an item veto restrains either deficit spending or total government spending. Until Proposition 13, state spending in California grew more rapidly than the State's economy. His experience as governor led Ronald Reagan to initiate the first constitutional tax/spending limitation movement. His experience as President leads him to support this amendment.

In his invitation to testify, Senator Abdnor noted that

> In recent years it has become increasingly clear that the source of many of our budget problems is institutional. The incentive structure facing many members of Congress chronically results in spending commitments in excess of tax revenues. This hearing will examine the value of a constitutional amendment mandating a balanced budget as a way to remedy this and related problems.

Many observers of legislative taxing and spending have come to a "working hypothesis" which may be summarized as follows:

> As focal points in the budget process, legislators are under constant pressure to provide more of each government service. Individuals constantly press for their representatives' favorable support and votes on those extensions of government yielding special benefit. Failure of a representative to acquiesce promises to provoke votes against him when he faces reelection. At the same time, he is under pressure to reduce the total burden of government his constituents bear as taxpayers. Reelection activity here, however, is likely to be less welldirected. Given the generality of taxes, what a citizen must pay is unrelated to the government services for which he and his family qualify. He has little interest in determining how much of his personal tax burden supports those services of particular interest and benefit to him and how much supports services demanded by others. This suggests that, under current constitutional rules, individual legislators will opt for sympathizing with the general taxpayer concern while emphasizing the special interest services provided his constituency.

In consequence, the burden of taxes and spending grows over time; the burden of spending grows more rapidly than the burden of taxes; and increasingly burdensome deficits result from the legislative process.

In the best of all possible worlds, constitutional reform would eliminate pressures on members of Congress to tax too much, but not enough to meet spending. Clearly the proposed amendment does not do so, neither am I aware of any proposal offering viable prospects for achieving this laudatory objective. Rather, as explored above, the amendment seeks to restrain Congressional response to these pressures through the re-establishment in the Constitution of fiscal norms which served the nation well through much of its history.

A constitutional provision is appropriate whenever the body politic perceives that the outcomes of the (legislative) decision-making process, in the absence of that provision, largely fail or would fail to comport with the outcome desired by that body politic. Justification for the amendment lies in the federal fiscal irresponsibility burdening this nation at least since the end of World War II. The history of increasingly onerous spending burdens, of budgets evermore in deficit, of inflation and high interest rates, of declining rates of savings and investment, and of declining rates of real economic growth is too well known to bear repeating here. Against this history, the American people have two choices: to permit, with occasional interruption, continuation of the deterioration of the last forty years or to begin repair of the constitutional defects which have become manifest. The proposed amendment would be a reasonalbe and constructive response.

Gentlemen, let me thank you for this opportunity to appear before you today at a time when an overwhelming majority of Americans concur that an amendment to the Constitution to promote Federal fiscal responsibility is of prime importance.

FEDERAL FINANCES AND THE GROSS NATIONAL PRODUCT
1958-1986

	CURRENT DOLLARS							SHARE OF GNP							
FY	GNP	R'CPTS	TOTOUT	DEFEN	NON-D	DEF'CT	DEBT	R'PT	TOUT	DEF	NOND	D'CT	DEBT	%DEF	%NON
1929	103.4	3.9	3.1			0.7	16.9	3.8	3.0			0.7	16.3		
1949	258.3	39.4	38.8			0.6	252.6	15.3	15.0			0.2	97.8		
1958	442.1	79.6	82.6	43.7	38.9	3.0	279.7	18.0	18.7	9.9	8.3	0.7	63.3	52.9	47.1
1959	473.3	79.2	92.1	46.0	46.1	12.9	287.8	16.7	19.5	9.7	9.7	2.7	60.3	49.9	50.1
1960	497.3	92.5	92.2	45.2	47.0	0.3	290.9	18.6	18.5	9.1	9.5	0.0	58.5	49.0	51.0
1961	508.3	94.4	97.8	46.6	51.2	-3.4	292.9	18.6	19.2	9.1	10.1	0.7	57.6	47.6	52.4
1962	546.9	99.7	106.8	49.0	57.8	-7.1	303.3	18.2	19.5	8.9	10.6	1.3	55.5	45.9	54.1
1963	576.3	106.6	111.3	50.1	61.2	-4.7	310.8	18.5	19.3	8.7	10.6	0.8	53.9	45.0	55.0
1964	616.2	112.7	118.6	51.5	67.1	-5.9	316.8	18.3	19.2	8.3	10.9	1.0	51.4	43.4	56.6
1964	618.2	112.7	118.6	51.5	67.1	-5.9	316.9	18.2	19.2	8.3	10.9	1.0	51.2	43.4	56.6
1965	659.5	116.8	118.4	47.5	71.0	-1.6	323.2	17.7	18.0	7.2	10.8	0.2	49.0	40.1	59.9
1966	724.1	130.9	134.7	58.1	76.5	-3.8	329.5	18.1	18.6	8.0	10.6	0.5	45.5	43.1	56.9
1967	777.3	148.9	157.6	71.4	86.2	-8.7	341.3	19.2	20.3	9.2	11.1	1.1	43.9	45.3	54.7
1968	831.3	153.0	178.1	81.9	96.2	-25.2	369.8	18.4	21.4	9.8	11.6	3.0	44.5	46.0	54.0
1969	910.6	186.9	183.6	82.5	101.1	3.2	367.1	20.5	20.2	9.1	11.1	0.4	40.3	44.9	55.1
1970	968.8	192.8	195.7	81.7	114.0	-2.8	382.6	19.9	20.2	8.4	11.8	0.3	39.5	41.7	58.3
1971	1031.5	187.1	210.2	78.9	131.3	-23.0	409.5	18.1	20.4	7.7	12.7	2.2	39.7	37.5	62.5
1972	1128.8	207.3	230.7	79.2	151.5	-23.4	437.3	18.4	20.4	7.0	13.4	2.1	38.7	34.3	65.7
1973	1252.0	230.8	245.7	76.7	169.1	-14.9	468.4	18.4	19.6	6.1	13.5	1.2	37.4	31.2	68.8
1974	1379.4	263.2	269.4	79.3	190.0	-6.1	486.2	19.1	19.4	5.7	13.7	0.4	35.3	29.4	70.6
1975	1479.9	279.1	332.3	86.5	245.8	-53.2	544.1	18.9	22.5	5.9	16.6	3.6	36.8	26.0	74.0
1976	1640.1	298.1	371.8	89.6	282.2	-73.7	631.9	18.2	22.2	5.4	17.2	4.5	38.5	24.1	75.9
1977	1862.8	355.6	409.2	97.2	312.0	-53.6	709.1	19.1	22.0	5.2	16.8	2.9	38.1	23.8	76.2
1978	2091.3	399.6	458.7	104.5	354.2	-59.2	780.4	19.1	21.9	5.0	16.9	2.8	37.3	22.8	77.2
1979	2357.7	463.3	503.5	116.3	387.2	-40.2	833.8	19.7	21.4	5.0	16.4	1.7	35.4	23.1	76.9
1980	2575.8	517.1	590.9	134.0	456.9	-73.8	914.3	20.1	22.9	5.2	17.7	2.9	35.5	22.7	77.3
1981	2885.9	599.3	678.2	157.5	520.7	-78.9	1003.9	20.8	23.5	5.5	18.0	2.7	34.8	23.2	76.8
1982	3046.0	617.8	745.7	185.3	560.4	-127.9	1147.0	20.3	24.5	6.1	18.4	4.2	37.7	24.8	75.2
1983	3221.4	600.6	808.3	209.9	598.5	-207.8	1381.9	18.6	25.1	6.5	18.6	6.5	42.9	26.0	74.0
1984	3581.1	666.5	851.8	227.4	624.4	-185.3	1576.7	18.6	23.8	6.4	17.4	5.2	44.0	26.7	73.3
1985	3868.5	736.9	959.1	253.8	705.3	-222.2	1841.1	19.0	24.8	6.6	18.2	5.7	47.6	26.4	73.5
1986	4198.5	793.7	973.7	285.7	688.0	-180.0	2074.2	18.9	23.2	6.8	16.4	4.3	49.4	29.3	70.7

Six (6) Surplus Years: 1949, 1951, 1956, 1957, 1960, 1969
Twelve (12) Years In Which Deficit Less Than One Percent: 1952, 1954, 1955, 1958, 1960, 1961,
1963, 1965, 1966, 1969, 1970, 1974

SOURCE: Budget of the United States Government, FY 1990, 1983, and 1986, Tables 24 and 25.

Representative WYLIE. Thank you very much, Mr. Stubblebine.

Senator D'Amato is under some time restraints and I have agreed to give him the opportunity to ask questions first and I think maybe he wants to ask you about the Gramm-Rudman-Hollings proposal. And he's going back on the Senate floor and debate that pretty soon, so maybe he can get some information here.

Senator D'AMATO. Thank you very much, Mr. Chairman. The fact is, I think that possibly as a result of what some say may be a crisis—I don't think it's a crisis. We sort of recognized a crisis when we crossed the $1 trillion line 5 years ago. I think the crisis is that in 5 years we have gone from $1 trillion, which is unheard of, to $2 trillion. What took us 200-plus years to get to, we got to in 5 years.

Having said that, how do we begin to deal with this problem? I am for a constitutional amendment dealing with the budget deficits that we now have, but it may not pass this year, next year, or the following year. It seems to me that we have an opportunity to pass a legislative initiative that says over the next 5 years the Congress must annually reduce the deficit, which is projected at $180 billion or maybe more, by five equal installments of $36 billion a year. If Congress fails to do it because of overspending every single year, surpassing its projected budget deficits, the President can then make the necessary cuts equally.

Gentlemen, what are your thoughts on this?

Mr. ANDERSON. I think you're absolutely correct. I think the key to the Gramm-Rudman legislation is the fact that it provides for a phaseout over 5 years, which makes it a practical way to do it.

You might be interested—I discussed the idea of a 5-year phaseout on the deficit in regard to a balanced budget amendment with a former Nobel prize winner and three former Chairmen of the Council of Economic Advisers before I came here—Milton Friedman, Alan Greenspan, Arthur Burns, and Murray Weidenbaum. Their reaction basically was that they supported the phaseout and it was a practical way to get it done, that it was absolutely necessary to do it, and they would support putting it in the Constitution.

Senator D'AMATO. Do you think the interest rates would start coming down if we passed this measure?

Mr. ANDERSON. I think interest rates would begin to come down, yes; absolutely.

Senator D'AMATO. Does the perception that we're never going to do anything to change when we pass a bill like this which states that, indeed, we're going to do something, setting a very positive tone?

Mr. ANDERSON. Yes; there's one element of Keynesian economics that most current day Keynesians have forgotten, but when John Maynard Keynes wrote his book he pointed out the extraordinary importance of business confidence. The trouble with business confidence is you can't measure it or taste it or smell it and econometricians can't put it in their mathematical models, but it has a dramatic impact on the economy. The passage of the Grumm-Rudman legislation, combined with a balanced budget amendment, would have an enormous positive impact on business confidence.

That would bring interest rates down and increase investment.

Senator D'AMATO. I do, too. Mr. Lee or Mr. Stubblebine, I am a proponent of the constitutional amendment, but I am also fearful that if we have to wait for Congress to pass one and do nothing, which is what we've been doing for the past 5 years—we all say, yes, we want it, and that there's a majority that wants it—we will keep seeing the annual deficits go up, and, of course, the cumulative deficit along with it.

What about that legislative initiative that says we cut deficits every year over the next 5 years, and if Congress can't do it, then we give the ability to do it to the President.

Mr. LEE. Well, I think that's a good idea. I agree with Mr. Anderson that the bill before Congress now provides an opportunity to tie in the constitutional amendment with some fiscal responsibility right now and start moving in the right direction.

But the main point, though—and it seems absolutely clear to me and I'm sure it's clear to everyone else—is without some type of external control on Congress, nothing is going to happen except more of the same.

One politician simply is not going to be able to say no to his or her constituency as long as it's known that every other politician can say yes to their constituency.

So unless Congress does accept, if you will, an external constraint—and the only way to do that is through the use of the Constitution—this legislation is not going to mean much and we're going to continue on the same path we've been on.

Mr. STUBBLEBINE. In asking to share in the remarks of Mr. Anderson and Mr. Lee, let me add that the Senate Judiciary Committee has had a great deal of cross-pressure in trying to draft a constructive amendment, pressure from the standpoint of trying to do something for today's situation as opposed to trying to set the stage for a period of fiscal responsibility in the future. To the extent that Congress acts expeditiously to phase out the current deficit, it certainly would make it much easier for the proposed amendment to take hold and be a restraining and fiscally responsible measure during the balance of the next hundred years.

Senator D'AMATO. Thank you very much.

Representative WYLIE. Would the gentleman yield on that point? I think that's an excellent point right there. Mr. Anderson has said that he's afraid that if we pass a constitutional amendment that it will be ratified too fast and I do think that——

Mr. ANDERSON. I hope, not afraid.

Representative WYLIE. Well, all right, not afraid, but you said that you were maybe concerned that it might be passed so fast that we couldn't bring the deficit down. Am I phrasing it correctly?

Mr. ANDERSON. Yes.

Representative WYLIE. What do you think about that, Mr. Lee? What about the possibility of putting in a 5-year provision in there so that the deficit would be reduced over a 5-year period?

Mr. LEE. You mean in the constitutional amendment?

Representative WYLIE. In the constitutional amendment. I hadn't thought of that before.

Mr. LEE. I don't think I would want to put that in the constitutional amendment itself. I think I would want to put a timing device on the Constitution when it kicked in and try to take care of the phasing down of the deficits through another vehicle.

Representative WYLIE. OK. Mr. Stubblebine.

Mr. STUBBLEBINE. Well, one always dislikes putting into the Constitution something that's going to self-destruct in 3 or 5 years, but beyond that there's certainly no difficulty in making that a part of the amendment.

Mr. ANDERSON. Let me just add that in the original Constitution there were several elements which did self-destruct, so it's nothing unusual.

Representative WYLIE. Thank you for yielding, Senator D'Amato.

Senator D'AMATO. Mr. Chairman, thank you so much for your latitude and for presiding over these very important hearings and for giving your time. I just want to reiterate that I think it's about time we do the business of the people and stop the rhetoric about cutting the deficit, stop the political posturing, one side or the other, come together and make some sense. If we were running a business or a household, or whatnot, and we saw that there was a deficiency, we would begin to eliminate those deficiencies by cutting those areas that were nonessential, moving to reduce them. We might not be able to wipe out that deficit in 1 year, but certainly we would do it in a prudent manner. We wouldn't turn off the heat and have all the pipes in the house break and create that kind of situation, but we might trim back in terms of the gardener who would come weekly—we would say, no, we can't afford the gardener to come weekly. We might even have to cut the lawn ourselves. So it's that kind of analogy.

The American people do it every single day in their personal lives, in their business lives, and we have to be able to do it, notwithstanding the political pressures. And, boy, if we can't pass some kind of action legislatively now and come together to do it, then I don't think we're ever going to do it. Then I think the fate is going to be a pretty bleak one for the future.

So I would hope we do come to that and I thank you gentlemen for your testimony and the chairman for his patience.

Representative WYLIE. Thank you very much, Senator D'Amato. We appreciate your coming and you have made a very strong statement in support of a balanced budget amendment, which I knew you would. You have a very excellent track record on that. Your record is well known and you have demonstrated purposefulness to this hearing and we thank you very much for coming and helping us with it today.

Congressman Dan Lungren has arrived on the scene from California and I'll give him an opportunity to ask questions in just a moment.

You all believe, as I understand your testimony, that the Government cannot and will not reduce Federal spending—first of all, you all believe that the deficit is too high and that we do need to reduce deficit spending; otherwise, there will be dire consequences on the horizon. You believe that it cannot be brought under control without a constitutional amendment. Is that a fair statement of your testimony?

Mr. ANDERSON. Yes; it is. It's not so much that we need an external control, but we need agreement on political rules. There is an old analogy. If five people go out to dinner and they agree ahead of time to split the bill evenly, you have a very different pattern of ordering than if everyone agrees to pay for their own food. And I think what the constitutional amendment does is simply make it possible for Congress to do what they really want to do, balance the budget.

Representative WYLIE. Mr. Lee.

Mr. LEE. Well, it's certainly my view that without an external constraint or a set of rules that are imposed on the Congress or the Congress imposes on itself, you are no more likely to reduce the deficits than you will be simply asking businesses and individuals to reduce their pollution because they would all be better off if that pollution was reduced. That's not going to work, and I think for the same reasons it will not work, Congress would have to have a constitutional amendment to impose the discipline that's necessary.

Representative WYLIE. OK. Mr. Stubblebine.

Mr. STUBBLEBINE. I agree with the last statement about imposing the discipline, but comments by those legislators from those States that have analogous types of limitations suggest that within a short period of time they look to these amendments as being their best friend, that it is in fact a vehicle by which they can say no to spending interests without at the same time incurring the kind of negative voter response that Members of Congress feel and experience under the current situation.

So I would see the amendment in some sense as the legislators' best friend, not somehow something that has to be imposed by the American people from external sources.

Representative WYLIE. Some critics argue that Congress could find a way to circumvent the restrictions of the constitutional amendment. You are all students of the Constitution and the fiscal restraint and so forth. But you feel that it would not be all that easy to get down the restrictions if it were in a constitutional amendment?

Mr. ANDERSON. Yes; I have conducted my own personal poll and I have yet to find a person that raises that argument who is in favor of a balanced budget. I think it's a totally bogus argument.

In fact, I think the Members of the Congress have an enormous respect and veneration for the Constitution and there's no question in my mind but that they would try to follow it.

For those who would argue that Congress would be able to circumvent it, my answer would be, well, if it doesn't make any difference, let's do it my way.

Representative WYLIE. In this constitutional amendment there is an escape clause that says Congress may waive the provisions of this article for any fiscal year for which a declaration of war is in effect. I was leading up to something when I asked my question. It might have sounded like it was a rather elementary question.

But I offered a constitutional amendment in my first term and I've done it every year on a balanced budget amendment, but I also heard that the Congress could override restriction as far as balancing the budget is concerned in case of war or national emergency. And a national emergency would have to be determined by a three-fifths vote of the House and Senate.

Do we need something like that in here? What if we do have a real difficult situation outside of a declaration of war? Is that something that we need to think about?

Mr. STUBBLEBINE. Perhaps I might take that. The first section providing for a three-fifths vote of the Congress to approve a deficit is in effect the same as a three-fifths vote to define a national emergency. So that Senate Joint Resolution 13 certainly incorporates your concept into it.

The distinction between that and section 3 is the notion that if the Nation is fully at war, declared and extraordinary votes to go about the business of Congress seem rather pointless. But your basic concept is currently in Senate Joint Resolution 13.

Representative WYLIE. Thank you. Is that the way you see that provision, Mr. Lee?

Mr. LEE. Well, I would certainly argue that such a provision should be in there and historically you could argue that there was not an explicit amendment to the Constitution to balance the budget but there was certainly an understanding in this country that that should be done and, indeed, it was honored except during war or national emergency. Certainly in the future, if we could get back to the responsibility that was shown in the first 150 years or so of the Constitution with respect to fiscal responsibility that would be fine and we should have that provision in there.

Representative WYLIE. Congressman Lungren.

Representative LUNGREN. Thank you, Mr. Chairman. I know you said I just arrived on the scene from California. I am from California but I arrived on the scene from the Judiciary Committee where we're marking up a bill.

On the declaration of war, I understand Senator Moynihan has suggested all we would have to do is declare war on Iceland every year and we'd get around it.

Representative WYLIE. I don't think we'd be doing that.

Representative LUNGREN. So we ought to be equal opportunity lawyers and declare it on some other country every year instead of poor Iceland. [Laughter.]

I'm a supporter of this overall effort, but we have had much difficulty trying to make headway in the House of Representatives, as you three gentlemen know, and I know, Mr. Lee, in your statement you said, "If all it took to balance the Federal budget was for the American public to want it balanced, it would have been balanced long ago." Now that really brings up a question which is, as much as it's on the minds of the American people, I have not yet found it to be the type of an issue that makes a difference in whether someone is elected or not elected. I compare it, being from California—or contrast it to proposition 13. I mean, that was such a strong movement that it knocked a lot of people out of office who had opposed it, even though we had a means of expressing ourselves that we don't on the Federal level.

It may sound like a simple question but I'd like to hear from the three of you. That is, what do you find the most relevant arguments with respect to why it is important to have a movement toward a balanced budget?

The reason I say that is I tend to think that one of the reasons we don't have it as an issue, that means whether someone will be elected or not elected, is that by and large the economy is in pretty good shape as far as the average person is concerned. Inflation is down. The average person's purchasing power is up. Unemployment is higher than it's been traditionally but it's down substantially from where it was. And I suspect if the economy were going the other direction, if inflation were high, if interest rates were exceedingly high, if unemployment were high, and we could tie that directly to a need for a balanced budget, you would see political movement in this country.

So I guess my question is, what are the arguments that you believe have the most relevance and are most pungent for us to use with the American people as to why moving toward a balanced budget is important in terms of the economy?

Mr. LEE. Let me address that by not exactly answering you but addressing a slightly different point, and that is possibly why the American people, although I think they favor a balanced budget, it's not a salient issue, it's not something that will get you elected or get you defeated. And that's because the benefits that would come from fiscal responsibility, if you will, balancing the budget, are very general benefits. They accrue to the Nation at large.

And when it comes to taking political action, most people are more interested in what's in it for them personally, very special interest benefits, and they're going to fight much harder to get the dam built or get their program continued or the funding of it expanded than they are going to fight for an issue that would provide much greater benefits overall but where those benefits are spread over the entire populace.

In saying that, what I'm arguing is that it might be fairly difficult to come up with an argument that's going to really galvanize your constituency to march on Washington for a balanced budget amendment. But that's the very reason we need it, because in the absence of such a restriction on Congress, it's not going to get high priority and in the long run we will all suffer as a consequence.

Representative LUNGREN. I suppose if I could redraft my question it would be this. What are the consequences of us not moving toward a balanced budget? I think we need a balanced budget constitutional amendment frankly to lock us in and require us to do it, but what are the consequences as you three see it, the real consequences, of us not doing that?

In other words, I've heard the argument on the other side. Some economists say, look, you shouldn't lock yourselves into a balanced budget. There are times we don't need a balanced budget, in fact it's harmful to the economy; and now I have three economists here in front of me who feel the other way. I'd like to know what your best shots are in terms of the consequences of us not moving in that direction.

Mr. ANDERSON. First of all, I'd put on my political hat for 60 seconds and answer that first question.

I think the reason why we haven't had a national equivalent to a proposition 13 is because we really haven't had a practical way to achieve a balanced budget amendment in the Constitution up until a few days ago. The legislation now pending, which proposes a 5-year phaseout, is the political key. It takes the desirable goal of a balanced budget amendment and basically what it does is show you how to get the horse in the barn. Then, once you get the horse in there and close the door, you can use the amendment to lock the door.

To answer the second question very briefly, if we continue to accumulate deficits of the order of magnitude we have been doing, I think it's just a matter of time before you'll have sharply higher interest rates, higher rates of unemployment, higher rates of inflation, and lower real economic growth and everything that follows from that.

Some of the things that follow from that in the future will be a lower rate of increase in real defense spending necessary for the security of this country, a lower rate of growth in social welfare programs, and higher taxes.

Representative LUNGREN. Mr. Stubblebine.

Mr. STUBBLEBINE. With respect to the first, I'm unaware of any Member of Congress that ever takes to the hustings and says that he's in favor of higher deficits, higher taxes, and lower spending. So I don't know that anybody in the body politic could recognize differences among candidates on this issue—they see the candidates all saying the same thing about these issues. Then what happens is that Members of Congress get back here and they find ways to disagree as to what the most effective course of action is, to carry out the very promises that they made to their constituents and the Congress then becomes deadlocked on moving ahead.

The point is that the body politic doesn't have any choices at the moment because all candidates for office essentially take the same pledge of fiscal responsibility.

Representative LUNGREN. I would even argue that at least in the House of Representatives gerrymandering has made such a lock situation with respect to so many Members of Congress that it can't be the cutting issue. In California we have 45 congressional districts, over one-tenth of the entire country. Only 44 of them were locked in last time and it really didn't matter whether it was an issue, because no one really had to worry about being elected or defeated on taking a tough stand on that and I think that's one of the things that people ought to realize when we have gerrymandering in different States. I don't care which party it is. When you're so institutionalized for a 10-year period of time with one party, the ability of the electorate to really involve themselves is very limited.

Let me ask the three of you this question. Is balancing the budget an end in and of itself or should the amendment more properly be viewed as a means of reducing the excessive burden of Government spending as a percentage of GNP?

The reason I ask that is, if you look at the constitutional amendment that is before the Senate, it does have a formula in there dealing with the increase in receipts in a particular year. It puts a limit on that which suggests to me that in addition to balancing the budget, we're saying balance the budget and we want you to balance the budget in the direction of lowering spending as opposed to increasing taxes. I happen to think that makes good sense from my standpoint, but I just wonder what the three of you have to say on that.

Mr. ANDERSON. I guess I would view it solely as a means. I know when we were developing the elements of President Reagan's Economic Program a lot of people thought the purpose was to reduce the tax rate or control spending or reduce Government regulation. It was none of those.

The real purpose and thrust of that legislation and in my mind the balanced budget amendment should be to promote economic growth in this country, economic prosperity.

If we can have a situation with rising real income for the average American person, then we can afford the kind of national defense that is necessary, and we can afford the social welfare programs that are considered appropriate, and we can keep tax rates low. I think the basic goal and thrust of all this is economic growth.

Representative LUNGREN. Mr. Lee.

Mr. LEE. I agree that it's definitely a means, not an end in itself. I think it's a means of avoiding all the problems that Mr. Anderson mentioned a few minutes ago. In some sense, the budget is always balanced. If you guys spend it, you're going to have to take resources out of the private sector. In a sense, it's not a balanced budget; it's a truth in taxing bill. It says you guys have to reach into the American public's pocket in a very visible way and grab those resources in order to fund the programs that you favor. In doing that, I think it would discipline the spending side of congressional action, make us aware of the cost of what we're doing through the political arena and by taxing in that very visible way it avoids this disguised taxation that's leading to the deficits that in the long run I think will cause the problems Mr. Anderson was talking about. It's definitely a means, not an end in itself.

Mr. STUBBLEBINE. Disguised through the mechanism of distorting the capital markets, I might add. I never thought of the Constitution as an end in itself. I have always thought of it as a means to promoting a good life.

Representative LUNGREN. Well, I guess my question really is, would the three of you be as supportive of a constitutional amendment to balance the budget if it didn't contain in there the restriction on spending increases in a particular year.

Mr. STUBBLEBINE. I personally would be very skeptical on the basis that the most effective section 2 is a very important element in trying to promote fiscal responsibility. That is, it provides the target to which you are going to bring spending from year to year; it allows, through the mechanism of a statement, a planning process, a forward looking process to take place. Such a process is almost utterly absent in the current situation and would not be part of a simple-minded balanced budget procedure.

Representative LUNGREN. Mr. Lee, would you be as supportive of the effort if it didn't have that section in it?

Mr. LEE. I think that section adds to it and I'm more supportive because of that section, although I do think it would be a reasonable amendment even without that. I mean, as long as you tell the Congress it has to explicitly raise the taxes to fund its spending I think that would be a tremendous step in the right direction.

Mr. ANDERSON. I would prefer to have that limitation in there. I think you have to recognize that limitation was proposed by people who were fearful that Congress would simply raise taxes to eliminate the deficit.

My own personal view is that the political pressures would make that impossible, and I think it is absolutely critical to the future of this economy to have a balanced budget amendment. If you can get that one you should take it.

Representative LUNGREN. I guess the three of you are somewhat familiar about the similar State prohibitions against deficit spending. Do any of those, to your knowledge, have restrictions on the spending side?

Mr. STUBBLEBINE. By and large, the answer would be "no" because most of the balanced budget provisions in State constitutions were adopted well ahead of the constitutional tax limitation movement, such as the spirit of 13 in California.

Representative LUNGREN. The reason I think we need to have that in there is, frankly, there seems to be some different perception on the part of people in public life, perhaps on the part of the folks back home, that as you get further and further from them it's easier to tax them without them knowing about it or realizing it. If you were on the local school district or you were at the city level and you said, all right, I have a balanced budget requirement and we're going to balance it this year by raising taxes, you have a heck of a lot more problems than if you do it at the State level and the Federal level is far easier than the State level.

I think the point the three of you made that at least it puts it out on the table—if you're going to raise my taxes at least tell me about it and let me know ahead of time and certainly let me know ahead of time before I go to the polls next time—has a very, very conducive effect toward fiscal responsibility on Members of Congress.

Representative WYLIE. If the gentleman would yield on that point, I think you're raising a very interesting point and one that needs to be raised here. Mr. Lee, you said that you didn't think the amendment necessarily had to have that in at all, you would support it even if section 2 were not in the constitutional amendment.

I assume that all of you would feel the same way, that it would still be better——

Mr. STUBBLEBINE. My hesitation would be significantly more pronounced than Mr. Lee's.

Representative WYLIE. Well, I guess the point I want to make there is what we're really trying to do is to get to a balanced budget. That's the bottom line in these discussions. And what would be wrong if we needed to increase revenues to get to a balanced budget if that were the aim and purpose of it? That's a devil's advocate kind of question.

Mr. ANDERSON. Well, I think that is the fear of people who support that kind of a limitation. For example, if you raised taxes, individual income taxes, in a sufficient amount to remove the deficit, I think you would have to increase them something on the order of 60 or 70 percent and keep that increase in effect. Of course, if you did that, that in itself could have a very counterproductive effect on the economy and you might end up with a larger deficit.

I think that's the primary concern of people who support the limitation.

Representative WYLIE. I wasn't necessarily suggesting that all of it be reduced by increased revenues, but perhaps some sort of a mix. For instance, during World War II we imposed luxury taxes and taxes on cigarettes and alcohol and that sort of thing to raise additional revenues to help finance the war as you know.

I think we're in a war right now. I think we're in the kind of a war that needs extraordinary measures and I would be willing to go to almost any extreme to get the budget deficit down.

Representative LUNGREN. If the chairman would yield on that, it reminds me of a poor guy who's working two jobs, working 16 hours a day, barely has time to sleep, and realizes he can't pay for all the bills that have been acquired by his family. So instead of telling his family to stop spending, they tell him to take a third job which is going to result in him having no sleep which probably means he may get fired from one of the first two, in which case he's going to have a larger deficit at home.

Representative WYLIE. Well, I didn't know that that analogy was in my question, but I get your point.

Mr. ANDERSON. I think that as a practical matter it is possible and it would be better to eliminate the deficit by controlling the growth of Federal spending.

Representative WYLIE. I agree with that; yes.

Mr. ANDERSON. As a practical matter, if it is politically necessary to have some tax increase, my own personal view is that I would support that but on the following conditions. I think you might go back to 1982 as a guide, when President Reagan was convinced that he should support a tax increase because he was advised that for every dollar of tax increase there would be a $4 reduction in the deficit. Now the only problem with that was they got the tax increase first and the spending reduction never came along.

Now if we could have that order of magnitude of deficit reduction, then it would probably justify it.

Representative WYLIE. But that wasn't a tax increase. That was a revenue enhancement measure.

Mr. ANDERSON. I stand corrected.

Mr. STUBBLEBINE. If I may, the way this discussion has evolved is a case in point as to how easily a discussion about the goodness, the strength, of the amendment lies in dealing with the current deficit situation. Here you have an amendment which is designed to maintain fiscal responsibility. It's being looked at, though, as a vehicle for restoring fiscal responsibility. There are, in fact, two different issues. As between the increased taxes and reduced spending to meet current circumstances, I suppose each one of us has his own political biases about that. Now the shared agreement is that the deficit should disappear. Then the issue becomes what is going to be the institutional setting within which fiscal responsibility is maintained thereafter. And I'm concerned that the amendment is being looked at strictly from the standpoint of, "How do we cure the current irresponsibility?" That is not its purpose; it never has been its purpose.

Representative WYLIE. Well, I asked you to yield. Do you have some more questions?

Representative LUNGREN. Yes; in the 1960's and 1970's, oftentimes what we heard in the newspapers in terms of discussions of economic issues was the idea of fine tuning the economy through certain budgetary means and one of the strong suggestions at that time was that we might intentionally create deficits because in fact there was a good that came out of that which was stimulating economic growth.

What was the actual effect of that school of thought? And I know the three of you don't agree with it, but has it lost much of its currency in the academic environment?

Mr. LEE. It's definitely on the run. It's hard to find a fine tuner any more. In fact, I think it's gone beyond the endangered species list.

Mr. STUBBLEBINE. It's almost as hard as finding a Congressman advocating higher deficits.

Representative LUNGREN. In words or action? We have plenty of them that act that way.

Mr. LEE. The problem of fine tuning are twofold. One is that even if the Congress had the correct intentions, if they were motivated to pursue fiscal policy for the purpose of generating the public good, if you will, benefits for all through a strong economy, they don't have the information to do it. And the second question is whether or not the motivation exists if they did have the information. And I think you can argue they don't have the motivation even if the information were there.

Representative LUNGREN. So it's basically discredited today; is that a fair statement? I mean, I'm asking three that obviously have disagreed with it for a long time, but I'm trying to find out whether the snake is dead or whether it's going to come back and haunt us shortly.

Mr. ANDERSON. Well, I think probably the soul of the snake is dead but there are a lot of live snakes still running around.

Mr. STUBBLEBINE. I doubt that the soul is dead. I think they currently are just not having much sway over things, but I think that instinct for managing the economy still very much lies in the hearts of many of my colleagues.

Representative LUNGREN. You see, the concern I have is that it seems to me traditionally we've had a bias against deficit spending in this country. It was part and parcel of our daily existence. It seemed to extend to Government except in times of real war. And yet that intellectual movement might have been one of the things that helped break the unwritten taboo against deficit spending. It became acceptable.

Mr. STUBBLEBINE. Absolutely. The intellectual spirit of Lord Keynes certainly eroded a major part of the implicit Constitution that had guided this country. There was only one exception and that was a period of war. The rest of the time, in fact, we ran a surplus to repay the previous war debts and then kept it in balance. The problem in the United States up through the 1800's was how to spend all the revenues the Federal Government received and generated. By 1913, we introduced a whole new method of taxation and since then we haven't been able to pay all our bills.

Mr. ANDERSON. Let me just add one point. One of the things that's not spoken of in the economic profession is that there is a disconnect between certain kinds of economic theory and what economists do when they have administrative positions in the Government. And part of the problem with fine tuning is that it requires the ability to forecast, and economists cannot forecast precisely what is going to happen. In fact, my favorite quote on that was a forecaster who once told an audience that he had discovered that to err is human and to be paid for it is divine. [Laughter.]

Mr. LEE. Well, my favorite quote is that economists have forecasted 14 out of the last 4 recessions. So actually we're quite good at forecasting.

Let me make the following point. I don't want to leave the impression that I think fine tuning is completely dead in opposition to my two colleagues here. I think fine tuning as a practical excuse for fiscal policy might not be dead and might come back. I mean, you have to realize that it serves two clientele. First of all, it serves economists. Fine tuning gave us a great deal of importance. It made it sound like we could do a lot of things that we can't do but we like to be perceived as important, whether wrongly or rightly.

Second, it served the interests of legislators who wanted to spend money. They wanted an excuse for a deficit. They wanted to put a ribbon around deficits and make it look like something that was good rather than something that had always been perceived as bad.

Representative LUNGREN. Well, I want to thank the three of you for your testimony. It's kind of coincidental that this hearing was scheduled at a time that the Senate would be involved in their debate, but it's obviously helpful I think to the debate. I'm always reminded of Barber Conover's observation on the balanced budget constitutional amendment. He said:

> It's just simple. All we're trying to do is create the institutional setting so that Congress will resolve doubt in favor of balanced budgets instead of resolving doubt in favor of deficit spending. It can be overcome if it's necessary.

I don't think there's anything more true than we consistently resolve doubt in favor of deficit spending and all we need is a constitutional setting which will help us see the way. We don't seem to be able to do it by ourselves.

Thank you, Mr. Chairman.

Representative WYLIE. Thank you, Congressman Lungren. And I think, too, that these hearings were propitious and came at a very good time. Time and circumstance means a lot in all business and it does serve to emphasize how important we feel balancing the budget is and with this amendment which is on the floor right now in the Senate being debated, as Congressman Lungren says, I think it helps in the whole process.

Certainly this distinguished panel of knowledgeable people have helped us in the process this morning. You have been most impressive and we thank you very much for assisting us in trying to come to some conclusions on this.

I do think that there is a strong movement in the country for a balanced budget amendment or at least for a reduction in spending to bring the deficit down, and I think that the American people are going to have their way before very long on this issue. I think maybe this is an idea whose time has definitely more than passed even.

Again, thank you very much. We appreciate your patience. I'm sorry for the mixup on the schedule here this morning a little bit about Senator Mattingly who was to have chaired this hearing this morning—and he's very actively involved in the discussions. And also there was a Senate caucus on that very issue on the increase in the national debt and the amendment, the so-called Gramm-Rudman amendment to that. So those things took the Senators away. Those are some things we can't always anticipate, but anyhow they threw up a flare and asked me to come over and I'm honored to have been the chairman of this subcommittee.

Senator Hatch was to have appeared here this morning. He did make his prepared statement available to us and I ask unanimous consent that that be included as a part of the record.

Senator Pete Wilson also has presented us with his own written opening statement and he's asked us to include that as a part of the record.

[The prepared statement of Senator Hatch and the written opening statement of Senator Wilson follow:]

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

AMENDING THE CONSTITUTION TO REQUIRE A BALANCED FEDERAL BUDGET

MR. CHAIRMAN. IT IS INDEED A PRIVILEGE TO APPEAR TODAY BEFORE MY COLLEAGUES ON THE JOINT ECONOMIC COMMITTEE TO PRESENT MY VIEWS ON THE NECESSITY OF PROPOSING TO THE STATES AN AMENDMENT TO THE CONSTITUTION TO CHECK THE CURRENT SYSTEMIC BIAS IN FAVOR OF DEFICIT SPENDING.

CONGRESS HAS RECENTLY BEEN CONSIDERING A BILL TO AUTHORIZE RAISING THE DEBT CEILING TO MORE THAN TWO TRILLION DOLLARS. ONLY FIVE YEARS AGO, WE WERE REQUIRED TO ACKNOWLEDGE THAT FOR THE FIRST TIME IN THE TWO HUNDRED AND FOUR YEARS OF OUR REPUBLIC'S HISTORY THE PUBLIC DEBT HAD RISEN ABOVE ONE TRILLION DOLLARS. NOW WE HAVE AMASSED THE SECOND TRILLION IN A MERE FIVE YEARS. WE SEEM TO HAVE ABANDONED COMPLETELY THE UNWRITTEN CONSTITUTIONAL RULE THAT AMERICA SHOULD OPERATE ON A "PAY-AS-YOU-GO" BASIS.

I HESITATE TO BURDEN THE COMMITTEE WITH ANOTHER DESCRIPTION OF THE MAGNITUDE OF TWO TRILLION DOLLARS, BUT IT IS VALUABLE TO REALIZE WHAT THIS INCOMPREHENSIBLE FIGURE MEANS TO AMERICAN FAMILIES. MONEY, LIKE EVERYTHING ELSE, IS NOT FREE; TAXPAYERS HAVE TO PAY INTEREST ON THE PRINCIPAL OF TWO TRILLION DOLLARS THAT THE FEDERAL GOVERNMENT HAS BORROWED. EACH WEEK, A TAXPAYING FAMILY OF FOUR WILL PAY NEARLY FORTY-THREE DOLLARS AND FIFTY

CENTS OUT OF THEIR INCOME TO PAY INTEREST ON THIS EXORBITANT DEBT. MORE THAN FORTY-THREE DOLLARS A WEEK IS A FAMILY'S TAX BURDEN SIMPLY TO CARRY THIS DEBT FORWARD, WITHOUT A PENNY DEVOTED TO RETIRING THE DEBT.

IN ADDITION TO A RISING TAX BURDEN, NEARLY EVERY OTHER ECONOMIC MALADY CAN BE TRACED TO CHRONIC DEFICITS. INTEREST RATES CLIMB EITHER BECAUSE THE FEDERAL GOVERNMENT SOAKS UP SO MUCH OF THE AVAILABLE CAPITAL TO SATISFY ITS OWN INSATIABLE BORROWING THIRST OR BECAUSE DEBT MANAGEMENT PRACTICES HAVE SPURRED INFLATION. INFLATION GROWS OUT OF DEFICITS WHEN THE DEBT IS MONETIZED (PURCHASED BY THE FEDERAL RESERVE) FASTER THAN THE ECONOMY'S ABILITY TO ABSORB THE INCREASED MONEY SUPPLY. IN ANY EVENT, EITHER OF THE TWO WAYS OF MANAGING THE BUDGET -- BORROWING OR MONETIZATION -- EXERTS UPWARD PRESSURE ON INTEREST RATES OR INFLATION WHICH DISCOURAGES JOB CREATION AND LEADS TO UNEMPLOYMENT. UNEMPLOYMENT AND SAGGING ECONOMIC GROWTH, IN TURN, DECREASE THE FLOW OF REVENUES BACK TO THE U.S. TREASURY AND EXACERBATE THE DEFICIT PROBLEM.

THE ROOT OF THESE ECONOMIC WOES IS, IN SIMPLE TERMS, A POWERFUL BIAS IN FAVOR OF UNBRIDLED FEDERAL SPENDING. CONGRESS IS MORE WILLING AND ABLE TO VOTE FOR POPULAR SPENDING PROGRAMS THAN IT IS WILLING AND ABLE TO VOTE FOR UNPOPULAR TAXES TO FUND THOSE BENEFITS.

IN TWENTY-THREE OF THE LAST TWENTY-FOUR AND FORTY-SIX OF THE LAST FIFTY-FOUR YEARS, THE FEDERAL GOVERNMENT HAS RUN A BUDGET DEFICIT. THIS IS NOT CONSONANT WITH THE GENUINE WILL OF THE PEOPLE. THIS WILL IS DEFEATED, HOWEVER, BECAUSE EACH SPECIFIC

SPENDING PROGRAM OFFERS CONCENTRATED BENEFITS TO A SMALL CLASS OF BENEFICIARIES, WHILE THE COSTS ARE DISPERSED AMONGST ALL TAXPAYERS WHO HAVE LITTLE OR NO INCENTIVE TO ORGANIZE TO DEFEAT ANY SPECIFIC PROPOSAL. WE ALL UNDERSTAND WHY THE BIAS IN FAVOR OF SPENDING IS PRACTICALLY INSURMOUNTABLE.

WITH AN ECONOMIC CRISIS OF UNFATHOMABLE PROPORTIONS LURKING ON THE HORIZON, WE WOULD BE IRRESPONSIBLE TO DISMISS ANY ATTEMPT TO RESTORE SOME SELF-DISCIPLINE TO THE SPENDING MECHANISMS OF CONGRESS. FOR THIS REASON, I HAVE WELCOMED THE INNOVATIVE EFFORT OF SENATOR GRAMM'S AMENDMENT WHICH WOULD ATTEMPT TO REDUCE THE ALLOWABLE DEFICIT OVER A PERIOD OF SEVERAL YEARS.

FOR SEVERAL REASONS, THIS IS NOT, HOWEVER, A LASTING SOLUTION. IN THE FIRST PLACE, CONGRESS HAS NOT BEEN VERY AMENABLE TO SELF-DISCIPLINE. DESPITE DEFICIT PRESSURE IN THE LAST FIVE YEARS (80-84), CONGRESS HAS STILL SPENT AN AVERAGE OF TWENTY-EIGHT BILLION DOLLARS A YEAR OVER ITS OWN FIRST BUDGET RESOLUTION. IN THE ABSENCE OF SOME STRONGER INCENTIVE, CONGRESS IS NOT LIKELY TO PERSEVERE ON A COURSE OF SELF-DISCIPLINE. WE HAVE ENACTED STATUTORY PRESCRIPTIONS BEFORE -- WITH NO SUCCESS.

MOREOVER, SENATOR GRAMM CALLS HIS AMENDMENT AN EMERGENCY PROCEDURE AND SPECIFIES THAT IT WILL EXPIRE IN FIVE YEARS. HE RECOGNIZES THAT ONE CONGRESS CANNOT BIND A SUCCESSOR. A LONG-TERM SOLUTION TO THIS LONG-TERM PROBLEM WILL NEED THE FULL PRESTIGE AND WEIGHT OF THE CONSTITUTION.

PRESIDENT REAGAN PROBABLY EXPRESSED BEST THE SHORTCOMINGS OF STATUTORY REFORM: "EXCESSIVE FEDERAL SPENDING AND DEFICITS HAVE

BECOME SO ENGRAINED IN GOVERNMENT TODAY THAT A CONSTITUTIONAL AMENDMENT IS NECESSARY TO LIMIT THIS SPENDING." ACCORDINGLY, WHILE THE GRAMM AMENDMENT IS WORTHY OF ALL ENDEAVORS TO MAKE IT WORK, IT DOES NOT SUPPLANT THE REQUIREMENT THAT WE ACT FOR A PERMANENT SOLUTION TO A CHRONIC PROBLEM.

THE JUDICIARY COMMITTEE HAS LONG ACKNOWLEDGED THAT STATUTORY PROCEDURES WOULD BE NEEDED TO MAKE A BALANCED BUDGET AMENDMENT EFFECTIVE. IN FACT, S. J. RES. 13 CONTAINS SPECIFIC AUTHORITY FOR CONGRESS TO ENACT LEGISLATION TO CARRY OUT ITS RESPONSIBILITIES UNDER THE CONSTITUTIONAL AMENDMENT. THUS, THE GRAMM AMENDMENT MAY BE THE APPROPRIATE PROCEDURAL DEVICE TO ACHIEVE A BALANCED BUDGET, BUT THOSE PROCEDURES WILL NEED TO BE BACKED BY THE FORCE OF THE CONSTITUTION IN ORDER TO BE EFFECTIVE.

THE SENATE HAS ALREADY ONCE PROPOSED SUCH AN AMENDMENT. THE SENATE APPROVED THE BALANCED BUDGET AND TAX LIMITATION AMENDMENT ON AUGUST 4, 1982 BY A VOTE OF 69-31. ALTHOUGH A SUBSTANTIAL MAJORITY VOTED FOR THIS AMENDMENT IN THE HOUSE OF REPRESENTATIVES, IT FELL SHORT OF THE NECESSARY TWO-THIRDS APPROVAL BY A 236-187 MARGIN. A STREAMLINED VERSION OF THAT SAME AMENDMENT IS BEFORE THE SENATE TODAY AFTER SECURING APPROVAL EARLIER THIS YEAR IN THE JUDICIARY COMMITTEE UNDER THE ABLE ADMINISTRATION OF CHAIRMAN THURMOND.

THIS CONSTITUTIONAL AMENDMENT PROPOSAL, S. J. RES. 13, PROPOSES TO OVERCOME THE SPENDING BIAS BY RESTORING THE BIAS BY RESTORING LINKAGE BETWEEN FEDERAL SPENDING AND TAXING DECISIONS. IT DOES NOT PROPOSE TO READ ANY SPECIFIC LEVEL OF SPENDING OR TAXING FOREVER INTO THE CONSTITUTION, NOR DOES IT PROPOSE TO

INTRUDE INTO THE DAY-TO-DAY SPENDING AND TAXING DECISIONS OF CONGRESS. IT MERELY PROPOSES TO CREATE A FISCAL ENVIRONMENT IN WHICH THE COMPETITION BETWEEN THE TAX-SPENDERS AND THE TAX-PAYERS IS MORE EQUAL.

SECTION ONE OF S. J. RES. 13 WOULD ESTABLISH A BALANCED BUDGET AS A NORM OF FEDERAL FISCAL POLICY. IT COULD BE OVERCOME, HOWEVER, BY A THREE-FIFTHS VOTE IN BOTH HOUSES OF CONGRESS. SECTION TWO WOULD PROHIBIT THE FEDERAL GOVERNMENT FROM CONSUMING AN INCREASING SHARE OF THE NATIONAL ECONOMY IN THE ABSENCE OF A VOTE IN BOTH HOUSES OF CONGRESS SPECIFICALLY AUTHORIZING THE NECESSARY TAXES. SECTION THREE WOULD PROHIBIT THE FEDERAL GOVERNMENT FROM BORROWING MONEY IN THE ABSENCE OF A VOTE IN BOTH HOUSES OF CONGRESS AUTHORIZING THAT ACTION.

THE CONJUNCTION OF THESE PROVISIONS WOULD CHANGE THE DYNAMICS OF BUDGETARY POLICY. RATHER THAN EACH SPENDING INTEREST COMPETING ONLY WITH THE DIFFUSE INTERESTS OF THE TAXPAYER FOR A SHARE OF THE FEDERAL TREASURY, EACH SPENDING INTEREST WOULD COMPETE WITH OTHER SPENDING INTERESTS.

DURING DELIBERATIONS ON S. J. RES. 13, THE JUDICIARY COMMITTEE ALSO DEVELOPED ANOTHER CONSTITUTIONAL AMENDMENT PROPOSAL, KNOWN FOR THE TIME BEING AS S. J. RES. BLANK. THIS PROPOSAL SIMPLY MANDATES THAT FEDERAL EXPENDITURES SHALL NOT EXCEED REVENUES WITHOUT THE CONSENT OF THREE-FIFTHS OF EACH HOUSE OF CONGRESS. IT DOES NOT REQUIRE VOTES ON INCREASES IN REVENUE BEYOND THE GROWTH IN THE NATIONAL INCOME, NOR ON BORROWING ON THE CREDIT OF THE UNITED STATES. ACCORDINGLY, IT WOULD RELY HEAVILY

ON STATUTORY IMPLEMENTATION, SUCH AS THE GRAMM AMENDMENT WOULD PUT IN PLACE.

IN SUMMARY, IT IS TIME TO GIVE THE PEOPLE IN THE STATES A CHANCE TO EXPRESS THEIR OPINION ON THIS ISSUE BY SUBMITTING A PROPOSED AMENDMENT TO THE STATES FOR RATIFICATION. NEARLY TWO-THIRDS OF THE STATES HAVE ALREADY PETITIONED CONGRESS TO CONVENE A CONSTITUTIONAL CONVENTION TO DRAFT A BALANCED BUDGET AMENDMENT. THE PEOPLE DESERVE THE OPPORTUNITY TO PARTICIPATE DIRECTLY IN THIS QUESTION BY ACTING ON A PROPOSED CONSTITUTIONAL REMEDY.

A BALANCED BUDGET AMENDMENT WOULD CLEARLY BE IN THE SPIRIT OF THE BILL OF RIGHTS. THE FIRST TEN AMENDMENTS TO THE CONSTITUTION WERE DRAFTED TO LIMIT THE GOVERNMENT AND THUS PROTECT THE LIBERTIES OF THE PEOPLE. SIMILARLY A BALANCED BUDGET AMENDMENT WOULD LIMIT THE GOVERNMENT AND PROTECT FREEDOM -- IN THIS CASE, FREEDOM FROM EXCESSIVE TAXATION IN ONE FORM OR ANOTHER.

WRITTEN OPENING STATEMENT OF SENATOR WILSON

CERTAINLY, THE NEED FOR A BALANCED BUDGET AMENDMENT HAS BEEN HIGHLIGHTED BY CURRENT EVENTS, AS THE SENATE IS FORCED TO CONSIDER LEGISLATION TO RAISE THE DEBT CEILING TO OVER TWO TRILLION DOLLARS. WHEN THE SENATE'S TASK IS TO RAISE THE DEBT CEILING TO THIS UNPRECEDENTED LEVEL, THE POTENTIAL FOR FINANCIAL CRISIS IN THIS COUNTRY IS SELF-EVIDENT. AS A LONG TIME SUPPORTER OF THE BALANCED BUDGET AMENDMENT, I BELIEVE THE AMENDMENT IS AN INSTITUTIONAL CHANGE THAT NEEDS TO BE MADE TO ENSURE THAT CONGRESS WILL NOT CONTINUE MORTGAGING THE FUTURE OF AMERICA.

FURTHERMORE, I AM PLEASED TO COSPONSOR THE GRAMM-RUDMAN-HOLLINGS AMENDMENT TO THE DEBT CEILING LEGISLATION, WHICH I BELIEVE CAN BE AN EFFECTIVE, IF ONLY SHORT TERM, ANSWER TO OUR DEFICIT CRISIS. THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 IS A SOLUTION THAT WILL BE IMPLEMENTED IN AN EQUITABLE ACROSS-THE-BOARD FASHION. WHILE I BELIEVE THAT THIS AMENDMENT WILL FORCE US TO MAKE SOME PAINFUL DECISIONS AS CONGRESS NO LONGER HAS THE CREDIT CARD TO ENGAGE IN DRUNKEN-SAILOR SPENDING, I HOPE MY COLLEAGUES WILL HAVE THE COURAGE TO ACCEPT THE CHALLENGE THAT THIS LEGISLATION OFFERS US. EVEN IF THE PROVISIONS OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT ARE EFFECTIVE--AND I BELIEVE THEY CAN BE --I STILL

STRONGLY SUPPORT THE BALANCED BUDGET AMENDMENT BECAUSE WE NEED A PERMANENT MANDATE ON OUR FEDERAL GOVERNMENT TO ACT WITH FISCAL INTEGRITY. AND I BELIEVE THAT THIS CAUSE SHOULD BE ENSHRINED IN OUR CONSTITUTION.

THE BALANCED BUDGET AMENDMENT ENJOYS OVERWHELMING SUPPORT IN MY HOME STATE OF CALIFORNIA. DURING A CAMPAIGN THAT I LEAD TO HAVE THE BALANCED BUDGET AMENDMENT PLACED ON THE 1984 CALIFORNIA BALLOT, A POLL CONDUCTED BY WESTERN VIEWPOINT RESEARCH SHOWED THAT 72% OF CALIFORNIANS SUPPORTED THE AMENDMENT. THIS SUPPORT IS BIPARTISAN AND IS FOUND IN ALL SOCIOECONOMIC SECTORS OF MY STATE. CALIFORNIANS, AS WELL AS ALL OTHER AMERICANS, NOW REALIZE MORE THAN EVER THAT THEIR FINANCIAL FUTURES MAY HINGE ON WHETHER THE AMENDMENT IS ADDED TO OUR CONSTITUTION.

I AM PLEASED THAT SENATORS HATCH AND THURMOND WILL BE TESTIFYING HERE TODAY. THESE TWO DISTINGUISHED GENTLEMEN HAVE BEEN THE LEADING ADVOCATES OF THE BALANCED BUDGET AMENDMENT IN THE SENATE. BOTH WERE INSTRUMENTAL IN DRAFTING SJ RES 13, WHICH I HOPE WILL BE PASSED BY THE SENATE THIS YEAR. SENATOR SIMON HAS ALSO PLAYED AN IMPORTANT ROLE IN PROMOTING THE BALANCED BUDGET AMENDMENT. HIS LEADERSHIP IN THIS CAUSE WILL BE CRITICAL TO THE FINAL ENACTMENT OF THIS IMPORTANT BUDGET CUTTING DEVISE. I LOOK FORWARD TO HEARING THE TESTIMONY OF CONGRESSMAN JACOBS ON

THE STATUS OF THE AMENDMENT IN THE HOUSE OF REPRESENTATIVES. MR. JACOBS HAS BEEN AN ARDENT SUPPORTER OF THE AMENDMENT IN THE HOUSE. I AM PLEASED THAT WE HAVE TWO OUTSTANDING CALIFORNIA ECONOMISTS HERE TODAY, AS WELL AS OTHER WITNESSES, THAT WILL OFFER IMPORTANT INSIGHTS INTO THIS ISSUE.

I AM PROUD TO SERVE AS THE SENATE CHAIRMAN OF CONGRESSIONAL LEADERS UNITED FOR A BALANCED BUDGET (CLUBB). CLUBB IS A BIPARTISAN, BICAMERAL COALITION OF NEARLY 120 CONGRESSIONAL MEMBERS THAT HAS BEEN COORDINATING EFFORTS IN THE SENATE, HOUSE OF REPRESENTATIVES, AND IN THE STATES TO ENACT A BALANCED BUDGET AMENDMENT. CLUBB IS CHAIRED IN THE HOUSE BY CONGRESSMAN LARRY CRAIG OF IDAHO, WHOSE DEDICATION TO THE MOVEMENT TO PASS A BALANCED BUDGET AMENDMENT MUST BE COMMENDED. I ALSO WANT TO COMMEND LEW UHLER OF THE NATIONAL TAX LIMITATION COMMITTEE AND JAMES DAVIDSON OF THE NATIONAL TAXPAYERS UNION FOR ESTABLISHING A COALITION OF BUSINESS AND ECONOMIC LEADERS TO FOCUS SUPPORT FOR THE BALANCED BUDGET AMENDMENT.

I AM HOPEFUL THAT SJ RES 13 WILL BE SUCCESSFUL AMENDMENT IN THE SENATE BECAUSE IT IS BOTH A BALANCED BUDGET AMENDMENT AND A TAX LIMITATION AMENDMENT. I BELIEVE THAT IT SHOULD BE INCUMBENT UPON ALL LEGISLATORS TO STAND UP AND BE COUNTED IF THEY VOTE TO INCREASE TAXES ON THE PEOPLE OF THIS COUNTRY.

I KNOW THAT SENATOR SIMON HAS EXPRESSED CONCERN OVER INCLUDING THE TAX LIMITATION PROVISION IN THE CONSTITUTION, AND I LOOK FORWARD TO HIS COMMENTS ON THAT. HOWEVER, MY CONSTITUENTS WANT CONGRESS TO CUT SPENDING NOT RAISE TAXES. CONGRESS HAS AN OBLIGATION TO FIND NEW WAYS TO ECONOMIZE AND CUT WASTEFUL SPENDING BEFORE IT ATTEMPTS TO BALANCE THE BUDGET ON THE BACK OF THE AMERICAN TAXPAYER.

THE PROBLEM OF MOUNTING BUDGET DEFICITS POSES AN ENORMOUS THREAT TO AMERICA'S CONTINUED FISCAL SECURITY. CONGRESS, NO MATTER HOW WELL-INTENTIONED, HAS BEEN INCAPABLE OF ACTING WITH THE SELF RESTRAINT THAT IS NECESSARY TO BRING DOWN OUR BURGEONING BUDGET DEFICITS. ONE NEED ONLY REVIEW THE ACTIVITIES OF THE SENATE DURING THE PAST WEEK TO FIND AMPLE EVIDENCE OF THIS UNFORTUNATE TRUTH.

A CONSTITUTIONAL AMENDMENT REQUIRING CONGRESS TO ADOPT A BALANCED BUDGET IS A RESPONSIBLE AND NECESSARY VEHICLE TO INSURE THAT THIS NATION MAINTAINS ITS PLACE AS THE WORLD'S ECONOMIC LEADER AND TO ENSURE A BRIGHT FINANCIAL FUTURE FOR ALL AMERICANS.

Representative **Wylie**. Again, gentlemen, thank you very much for your time, your patience, and your contribution.

The subcommittee stands adjourned.

[Whereupon, at 12:40 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT
ON
THE TAX LIMITATION/BALANCED BUDGET AMENDMENT
for submission to the
JOINT ECONOMIC COMMITTEE
of the
U. S. CONGRESS
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Dr. Richard W. Rahn*
October 8, 1985

The Tax Limitation/Balanced Budget Amendment represents a simple and straightforward attempt to limit Federal spending. The measure would establish strict limits on Congress' ability to tax and spend.

Summary

As currently constructed, the major flaw in the existing budget process is the imbalance of power between special interest groups and the general taxpayer. The voices of special interest groups are loud and clear, but the effect of each of their programs, taken individually, on the taxpayer is miniscule. Adding fuel to the flame is the fact that it has been unnecessary for Congress to ratify its spending plans by voting for tax increases. They have occurred automatically due to the progressive tax structure and inflation. The passage of the amendment will rectify this imbalance and establish fiscal responsibility as a Constitutional mandate.

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The extraordinary expansion in the scope of activities considered appropriate for federal intervention has increased enormously the number of people who benefit from federal largess. The number of transfer payment beneficiaries has been growing at an alarming rate relative to the number of taxpayers. This makes it increasingly more difficult to control expenditure growth.

This spending bias is reflected in the failed attempts to limit such growth by statute. The problem is that we are becoming a nation that is at war with itself. On the one hand, as taxpayers, we can see the devastating effects of excessive taxation. On the other hand, we have become a nation where large segments of the population have become increasingly dependent upon some form of transfer payment. With a ratio of privately employed people to transfer recipients declining from 5 to 1 in 1950 to 1.3 to 1 by 1983, the odds are against fiscal discipline.

To resolve this dilemma, a new set of fiscal norms needs to be firmly established. Establishing these is the purpose of the Balanced Budget/Tax Limitation Amendment. It contains Constitutional constraints that help to deflect the self-destructive dynamics of our piecemeal and "me too" approach to the budget.

While all amendments of this type are susceptible to implementation problems, we support S. J. Res. 13, reported by the Senate Judiciary in July, because it restrains both deficits and growth of taxes. The Senate Judiciary reported an alternative balanced budget amendment (bill number yet to be assigned) which does not contain a restraint on the growth of taxes. Balancing the budget alone is not enough, for that would not restrain the political pressure for higher spending and could lead to successively higher taxation. S. J. Res. 13 limits growth in taxes by requiring that the increase in taxes in any given fiscal year be no greater than the prior year's growth in national income. It thus ends automatic increases in the tax burden.

The Need for Fiscal Discipline

Over the past decade, it has become increasingly clear that existing Congressional budget procedures are incapable of curbing the growth of federal spending and credit programs. Despite massive deficits, Congress continues to allow federal spending to rise at excessive rates. In fact, the real growth of federal expenditures continues at rates comparable to the Carter era.

These trend is not a recent phenomenon. Over the past century, public spending has been rising at an annual rate almost two to three percent faster than the Gross National Product (GNP). While this trend is noteworthy in itself, its ramifications can be shocking. According to some estimates, if we extrapolate the historical trend into the future, federal expenditures will approach 40 percent of GNP by the year 2000 and 100 percent by 2036. By this timetable, federal expenditures for 1984 would be in the neighborhood of 24 percent, which means that the fiscal year 1983 share of 24.7 percent was ahead of schedule!

This ominous trend suggests that our federal budget process contains serious defects: in particular, a systematic bias that leads to runaway spending and excessive taxation. Curiously, this problem was diagnosed over 200 years ago. Having recognized the need for government, the Founding Fathers were equally, if not more, concerned with controlling the failures of government. For the most part, these failures spring from the bifurcated decision-making on spending and taxing. Spending decisions are typically made separately from and without regard to tax decisions. This means that dominant majorities and powerful minorities can push through programs that create substantial benefits for themselves but inflict substantial costs on the rest of the electorate.

James Madison recognized this problem as "the violence of the faction." In this case, a well organized minority can profit by legislation that disperses the costs of a program over a large group of people. The former has every incentive to organize because its per capita benefits are high, and the latter fails to organize since per capita costs are low or insignificant. Indeed, while many members of the large group may fail to take notice, others can be duped by the minority's propaganda.

Unfortunately, spending bias is not limited to special interest because broad-based coalitions have similar incentives as long as they can pass a disproportionate share of the costs onto other citizens. This explains, in part, the virtual explosion of entitlement programs. For example, Social Security and Medicare benefits have been boosted by Congress because voters had few difficulties in accepting prospective payments that would exceed their own contributions. In this case, perhaps unwittingly, the voters of one generation have shifted a sizable portion of costs onto later generations. This bias is apparent from the continual deferral of decisions on automatic entitlement spending.

Our Fiscal Heritage

The Founding Fathers attempted to contain these problems by establishing a political obstacle course--the two houses of Congress and the veto power of the President. This system seemed to have worked well as total government spending remained below 10 percent of GNP until the late 1920's. The belief that government should be limited and that danger arose from its growth, was widespread Grover Cleveland maintained that people should support the government; the government should not support the people. And Woodrow Wilson maintained that the history of liberalism was a history of restraints on government.

In addition, balancing the budget was considered part of our unwritten constitution. Excessive public debt was considered dangerous. When deficits were incurred because of war or recession, efforts were made to repay them expeditiously. Twenty-eight years of surpluses followed the deficit years of the Civil War. Ten years of surpluses followed the deficit spending of World War I. But since 1960, the budget has been in deficit in 30 of 35 years.

In modern times, the ethos of limited government and balanced budgets has disintegrated. The expenditure bias, foretold by the Founding Fathers, now infest the political system. In part, this has been encouraged by the fact that it has been unnecessary for Congress to make evident the consequence of its spending decisions by voting for tax increases. Tax increases have occurred automatically as a consequence of the progressive tax structure and inflation. However, spending extravagance has also been the result of the Keynesian legacy, which has made it acceptable policy for governments to run deficits. Both factors have been abused by Congresses that were eager to generate votes in the short run, irrespective of the consequences in the long run.

In view of the mounting problems caused by runaway spending, Congress has attempted a number of solutions. The budget process was reformed in 1974 in order to increase accountability. There have also been statutory attempts to limit expenditure growth. However, it is evident that these solutions have failed. As a consequence, we believe, along with many other Americans, that a stronger mechanism is necessary. At this point in our history, Constitutional fiscal norms are needed to restore budgetary discipline. This is the purpose of a tax limitation-balanced budget amendment.

S. J. Res. 13: Tax Limitation-Balanced Budget Amendment

As presently formulated, S. J. Res. 13 represents a simple and straightforward attempt to legislate a limit on federal spending. The measure would establish strict limits on Congress' ability to engage in deficit spending and would prevent further perverse interaction between the urge to spend and the ensuing need to raise taxes when deficits became intolerable.

The key provisions of the amendment are to be found in the first two sections.

The first section requires that Congress plan for a balanced budget and that Congress and the President assure that actual spending does not exceed planned spending. Note that nothing is said about assuring that actual receipts equal (or exceed) planned receipts. This is because an administration has some control over spending, but it cannot exercise the same degree of control over receipts, which are affected much more by cyclical conditions in the economy. In a boom, actual receipts will exceed planned receipts; in a recession, receipts will drop. The first section does not rule out such automatically produced surpluses or deficits. This is one of the most important subtleties of the amendment. It avoids a rigidity that would be intolerable and harmful. It requires no year-by-year budget balance, but balance over the length or course of business cycles. By itself, the first section would not directly limit the growth of government. It would simply require that taxes and spending rise together and rise no faster than the growth in our economy.

The second section contains the most important element. It provides that planned receipts may not increase from one year to the next by a greater percentage than the increase in national income. Under section one, planned spending must be less than or equal to planned receipts, and actual spending must be less than or equal to planned spending. Hence, limiting receipts limits spending.

The amendment is sufficiently flexible to allow Congress to override some of its provisions (for example, if a prolonged recession or threat of war necessitates deficit spending). For such reasons, an unbalanced budget can be adopted. It must, however, be adopted explicitly by a vote on that subject alone. Congress can accept a deficit if three-fifths of the full membership of both houses believe that such a deficit is necessary. Also, by regular statute, Congress and the President may approve an increase in taxes greater than the growth rate of national income.

It would be naive to think that such an amendment is a cure-all for our fiscal problems. In this respect, the amendment is far from an absolute guarantee. In truth, fiscal discipline depends upon the will of the people and their elected representatives. If such will is lacking, the forces behind tax and expenditure growth will continue to dominate.

Not A Perfect Solution

Although the enactment of the amendment would lead to firmer restraints on spending growth, it is not a perfect solution. First, Congress and the President could secure the necessary majorities to approve both tax and expenditure increases. Second, it may lead to a bias in favor of tax increases, because the required majority for tax increases is smaller than that needed to approve a deficit and a large portion of the budget is consists of "uncontrollable" outlays. Third, the pressures to balance the budget could give added incentive to move programs off-budget for the purpose of achieving an illusory balanced budget. In a related manner, federally guaranteed loans, which are excluded from the amendment's control, could then be used to provide financial support. Finally, the proposal does not provide the President with any spending control mechanisms beyond what he already possesses. He is still constrained by a limitation on his impoundment and rescission authority, and he does not have line-item veto power. Thus, how he would enforce the provision in the absence of a cooperative Congress is not clear.

Upon close inspection, most of these objections pose relatively minor problems. While the override provisions allow for both tax and spending increases, the amendment makes such increase it more difficult than under the present system. The three-fifths' majority requirement for deficit spending affords more protection than now exists, and an increase in taxes greater than the growth of national income has to be voted upon explicitly

The objection that much of the budget is already uncontrollable and that little room exists for budget discipline misses the central reason for such an amendment in the first place. The whole point of a balanced budget amendment is to instill or force a set of behavioral norms upon the workings of Congress. In this way, the logjam of vested interests may be broken in favor of the general public interest. As a consequence, we would expect that the amendment would cause Congress to increase the range for budget cutting. This is precisely the goal, to gain control over the "uncontrollable."

The other objections refer to possible "escape routes" that Congress might pursue if such an amendment is enacted. No scheme is ever foolproof; however, many of the off-budget maneuvers are becoming known to the public, and this avenue may be closed eventually. In any event, the amendment should be construed as a means to repair our presently porous budget process. Lastly, nothing in the amendment precludes the President from gaining increased powers over the budget by the use of other tools, one of which, the line-item veto, would be an excellent complement to it.

Finally, the amendment's most important feature is that legislators will find it in their own interest to honor it. This point has been illustrated by the experience of legislators in states that have adopted similar amendments limiting state spending. Prior to the enactment of such amendments, they had no effective defense against lobbyists urging spending programs. Now they do. They can say: "Your program is an excellent one; I would like to support it, but the total amount we can spend is fixed. To provide funds for your program, we must cut others. Where should we cut?" In the words of Milton Friedman, the effect is to force lobbyists to compete against one another rather than, as now, against the amorphous and poorly represented body of taxpayers.

Conclusion

In view of the mounting problems caused by runaway spending, Congress has attempted a number of solutions. The budget process was reformed in 1974, and statutory attempts have been made to control spending. Federal spending has more than tripled from $267 billion in 1974 to $950 billion in 1985. In fact, in the past five fiscal years, Congress has surpassed its own budget resolution by an average of $28 billion. Clearly, statutory reform alone cannot control the budget. Consequently, we now need binding, Constitutional constraints upon Congressional behavior. The Tax Limitation/Balanced Budget Amendment offers an opportunity to restore budgetary discipline by placing permanent limits on Congress' ability to tax and spend. In this regard, the Chamber and other major business associations have formed the Tax Limitation/Balanced Budget Amendment Coalition to advocate the passage of S. J. Res.13 in the Senate and H. J. Res. 27 in the House.

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